

ACCOUNTANCY

VOL. LVIII (Vol. 9 New Series)

July, 1947

Number 647

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PROFESSIONAL NOTES

The King's Birthday Honours List

We congratulate Mr. Douglas Thornbury Garrett, President of the Law Society, who is to receive the honour of Knighthood.

We have pleasure also in recording the following honours to members of the accountancy profession:

Mr. Russell Kettle, F.C.A., Knight.

Mr. A. S. Macharg, C.A., Knight.

Mr. B. Barnes, A.S.A.A., Accountant-General, Ministry of Fuel and Power, C.B.

Mr. L. W. Farrow, F.C.A., Chairman, National Brick Advisory Council, C.B.E.

Mr. F. W. Rattenbury, F.S.A.A., Adviser on Hospital Finance and Business, Ministry of Health, C.B.E.

Mr. J. E. I. Bloom, A.S.A.A., H.M. Registry of Friendly Societies, O.B.E.

Mr. J. J. Burford, A.C.A., Chief Inspector, National Insurance Audit Department, O.B.E.

Mr. H. F. O. Bence, A.S.A.A., Assistant Director of Accounts, Air Ministry, I.S.O.

Mr. G. T. Williams, A.S.A.A., National Insurance Audit Department, I.S.O.

Mr. R. Wilson Bartlett

We are pleased to announce that Mr. R. Wilson Bartlett, J.P., F.S.A.A., a past president of the Society, has been appointed a Deputy Lieutenant for the County of Monmouthshire.

The Companies Bill in the Commons

The second reading debate on the Companies Bill in the House of Commons made it clear that while amendments will be put forward at the Committee stage, few of these are likely to be far reaching, and that there is broad agreement on the main lines of the Bill, considerably improved after its passage through the Upper House. The second reading speeches tended to concentrate upon the provisions dealing with the retirement of directors at the age of 70; the powers of the Board of Trade under Clause 44 to investigate nominee ownerships whenever they consider there is good reason to do so; dealings by directors and other interested parties in the shares of companies; and powers to modify the memorandum.

References were repeatedly made to the enlarged responsibilities and powers of auditors. There was no echo of the derogatory remark made by one member that "in my experience . . . I have always been forced to the conclusion that accountants, at any rate in relation to the accounts of public companies, had the same function which I think Voltaire once ascribed to language, namely, the concealment of the truth rather than its expression and exposition." The tone of the debate as a whole was in keeping with the more responsible statements by other members that "the real arbiter of morality in business to-day is the auditor or the accountant," and that "another excellent reform which will be achieved by this Bill is the strengthening of the position of auditors—that is a matter of the highest possible consequence to all investors."

Taxation of Pensions and other Benefits

The clauses of the Finance Bill dealing with pensions and other benefits came in for well-deserved criticism at the Committee stage in the House of Commons. It is apparent that the clauses are designed to close a loophole which it is not in the public interest to disclose. That makes it all the harder to understand the clauses. When it is known what mischief is in point, it is easier to understand the proposed remedy. Here we must carry on without the clue. The House is agreed that avoidance of tax is a proper thing for the Crown to attack. But strong criticism indicated that a large group in the House was not convinced that the clauses stopped at dealing with the mischief; they go into a much wider field, and if enacted as they stand will cause real hardship. The clauses as they stand would presumably have the following, among other, drastic results:

- (1) Salary in lieu of notice would be taxed despite the long-established practice that it is not charged.
- (2) A person appointed to a directorship or other office under a company carrying a pension not "approved" would be taxed (over six years) on the value of the pension, and then when he drew his pension would be liable on it as it arose. In effect he would be regarded as earning the value of the pension while employed, and taxed on that, as well as taxed on the pension in due course. It is true that a person who buys an annuity out of earnings has in effect suffered in this way, but that is not good argument for introducing further double taxation, but rather for altering the law on the taxation of annuities. No doubt the idea was that a smaller pay was taken to provide for the pension, but the cause is rather remote from the claim here. As an example of the working of the clauses as drawn, a director appointed at £4,000 a year, with pension of £2,000 a year on retirement, would have a liability to pay tax on the equivalent of the premium an insurance company would charge to provide £2,000 a year on retirement.
- (3) Compensation for loss of office will be chargeable, as well as payments to compensate for giving up pension rights.

The Solicitor-General explained the position broadly that if a scheme is approved under the existing law, the contributions are allowed for relief. If, however, the employee has a contingent, not an absolute, claim to retirement benefits, he does not pay tax on the employer's contributions, whereas if he has an absolute right (and the scheme is not approved) the employee has to pay tax on the employer's contributions. The clauses mean to catch any scheme aimed at taking advantage of this position. If the scheme is one that the Revenue can approve, well and good, the contributions rank for relief, otherwise they are to be taxed on the potential beneficiary. The employee is to be regarded as having had a nominal contribution from the employer, and be taxed on that advantage. It is evident that the Chancellor of the Exchequer is not too happy about the clauses, and he has promised that before the Report stage he and his advisers will examine the clauses and endeavour to make them more intelligible and to remove some of the dubious results. It appears,

however, that he is afraid that this will be only a first step, and that further legislation will be required in future. Unfortunately, all legislation aimed at stopping leaks draws attention to the fact that there is something going on in which all have not shared, and more and more persons enter the lists to discover leakages at the edges of the repairs. Mr. Dalton has this in mind.

A joint memorandum submitted to the Chancellor of the Exchequer jointly by the Association of British Chambers of Commerce and the Federation of British Industries drew attention to the inequities of the clauses where companies make *ex gratia* payments to employees or their dependants or pay voluntary pensions to employees not covered by approved schemes. Thus, if a company votes an employee's widow a pension, its capital value would, under the (unrevised) clauses, be treated as income of the widow spread over the six years prior to the death, and in addition the yearly amount of the pension would be taxed in the usual way. An employee who is not subject to an approved pension scheme, either because he was too old at its inception or because he joined the service of the company before the scheme was started, would be similarly treated. Further, the memorandum points out, the clauses are discriminatory in applying only to the employees of corporate bodies, and not to civil servants, local government officers, and employees of sole traders and partnerships. At the present time, it is stated, there are serious anomalies in the taxation treatment of pensions as compared with other forms of retirement benefit. The clauses as at present drafted do nothing to remedy these faults, but in fact make them worse. "If it is considered that the present taxation treatment of retirement benefits is unsatisfactory, as indeed it is, a careful enquiry should be made into the whole field of deferred remuneration. It is felt that a general principle will be found which can govern all types of retirement benefit."

Finance Bill Concessions

The exemption from purchase tax of cookers, cooking apparatus, electric kettles and many other smaller items (covering £8 million this year, and £12 million in a full year) is especially noteworthy since it is made retrospective to the date of the Budget. How the refund of tax on goods already purchased is to be obtained will be disclosed later, and will be studied with interest. Another concession, to be introduced in the Report stage, is the repeal of the stamp duty of £80 on articles of clerkship under the Solicitors Act, and its replacement by a nominal charge of 2s. 6d. The training expenses allowances of the Reserve Forces are to be made exempt from tax. The Chancellor also undertook to consider reducing the tax on interest accruing on war damage value payments.

Raising of Capital by Companies

It is still not sufficiently recognised that the Defence (Finance) Regulations, 1939, and the Capital Issue (Exemption) Orders, 1944 and 1945,

place severe restrictions on the powers of companies to issue capital or to borrow money by way of loan or bank overdraft. An instance of this was provided in a case recently tried at the Mansion House, when a company was charged with infringing the Regulations and the Order concerned. The company was incorporated in 1946 and in December of that year, without obtaining the permission of the Treasury, it raised a mortgage of £14,000. The company was fined £50 for this infringement, and was ordered to pay costs. Two other companies charged with similar offences were similarly dealt with. The Alderman who tried the case asked prosecuting counsel whether there would have been an infringement if the company had gone to its bankers and asked for an overdraft without obtaining Treasury permission. The reply was that it would, whereupon the Alderman remarked that there must be many thousands of companies who carried out those transactions daily.

The Defence (Finance) Regulations of 1939 imposed a most rigorous Treasury control on all issues of capital and loans by companies. The Regulation was relaxed to some extent by the Capital Issue (Exemptions) Order, 1941, which was amended by a similar Order of 1944. The effect was to exempt from Treasury control issues of capital and loans where the aggregate amount of such issues did not exceed £10,000 annually. As from June, 1945, the scope of the exemption was raised to £50,000. An explanation of the amendment issued by the Treasury in January, 1945, explained the effect of the Order as follows:

"The position of the companies incorporated before December 1, 1944, remains as it was before the amendment unless and until notice is received from the Treasury withdrawing the benefit of the £10,000 exemption. All companies incorporated before that date will continue to be entitled to the benefit of the exemption, unless they are informed to the contrary, and the benefit will only be withdrawn by the Treasury in cases where there appears to be abuse; but companies incorporated after December 1, 1944, do not enjoy the £10,000 exemption until they have been notified to that effect by the Treasury. In general, the benefit will be allowed and normally notice will be sent to the secretary of each company at its registered office shortly after incorporation. Application for such notice need not be made."

That explanation still holds good, except that for £10,000 must now be read £50,000. It should be appreciated that transactions involving the issue or loan of more than £50,000 in any twelve months must be submitted to the Capital Issues Committee as hitherto. Form Q.4, setting out the form in which applications should be made, is obtainable from the Committee at Treasury Chambers, Whitehall, S.W.1.

Incorporated Accountants' Course, September, 1947

There are still a limited number of vacancies for the Incorporated Accountants' Course to be held at King's College, Cambridge (by kind permission of the Provost and Fellows), from September 19 to 24, 1947.

The programme was published in our May issue on page 114. The inclusive charge for the Course is £6 6s., and any member of the Society of Incorporated Accountants wishing to attend is asked to communicate with the Secretary as early as possible.

Prices of Cement

The report of the committee to review the financial structure of the cement industry is considerably less critical than had been anticipated. A fairly detailed study of costs and prices produced the general finding that the Cement Makers' Federation, which embraces all manufacturers in this country, has not abused its position. It "has not exercised its control for the sake of restriction of output, but has continually sought additional outlets for its manufactures." Profits in the industry as a whole amounted in 1938 to 10½ per cent. on capital employed, in 1943 they were 12 per cent., and in 1945 6½ per cent. It is recommended that the Federation should arrange for the review of production costs so as to eliminate producers with unduly high costs, and that its price schedules should be submitted to an independent body, which would have consultative status. Both recommendations are to be followed by the Federation.

Rather more emphasis might have been placed upon the costs of production in the industry, and rather closer examination might have been expected of the committee itself on the issue which it has, in effect, delegated to the Federation—namely, whether producers with uneconomic costs are kept in being by the Federation's price-fixing machinery. The report, like so many price control schemes, attaches undue significance to the element of profits in selling prices, to the relative neglect of the much more important item of costs.

Cotton Textile Machinery Industry

A committee appointed by the Minister of Supply to enquire into the cotton textile machinery industry has issued an interim report on the spinning machinery section. A careful study of the history, organisation and capacity of Textile Machinery Makers, Ltd., which has virtually a monopoly of this section of the industry, led to the conclusion that purchasers have not been overcharged, but that in a number of respects the combine has fallen short of the standard of efficiency to be expected. In all these respects, however, steps have already been taken by the directors to comply with the suggestions put forward by the committee.

Accountants will be particularly interested in the importance attached by the committee to the introduction of modern standards of costing—the investigation showed that there was no apparent basis upon which the price of individual machines was related to their cost of production. An integrated costing system is, however, now to be installed, and the Ministry of Supply is to satisfy itself in 18 months' time that the system is operating.

ACCOUNTANCY

Formerly the Incorporated Accountants' Journal
Established 1889

The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

THE CAPITAL SHORTAGE

We live in times of "bottleneck" economics; when a coal crisis merges into a raw materials crisis, and when both are superimposed on a dollar crisis. But in a very real sense it is the chronic shortage of capital which dominates our economic problems. For if capital goods were available in sufficient quantity, the successive crises might well be avoided, and certainly would be much less intense. New and up-to-date equipment would go far to ease the coal stringency; if we could make good the accumulated wear and tear of plant in British industry generally, enhanced productivity would project us on a rising spiral of easier supplies, would lessen our dependence on the American economy, and would help us to balance our external accounts. The capital shortage may not be so dramatic in its effects as a coal crisis, but the accumulated effect is great—and can only be slowly eradicated. Even if it was not an obvious victim, the plant and machinery of British industry was certainly one of the worst casualties of the war.

The essence of the present problem is that, faced as we are with plant that is not only worn and torn, but also in numerous instances is antiquated, our national income is insufficient to allow us to use more than a very limited part on making good these deficiencies. By the standards set by our capital needs, we consume too large a part of our current output, but to reduce the flow of consumption goods would mean a degree of austerity which few would willingly suffer. Moreover, such a reduction might defeat its own ends by lowering the output of the workers and reducing the national income by more than the initial saving in consumption.

The problem is further aggravated by the fact that there are other non-industrial demands for capital goods to which a keen social consciousness nowadays attaches a high degree of priority. Houses, schools, roads, hospitals, demand an early place in the queue. The transport, electricity, gas, water, and other services require extension and modification. On every side there are insistent claims.

In these circumstances, Mr. John Ainsworth made an apt choice of subject when he gave his Presidential Address to the Institute of Municipal Treasurers last month. We have pleasure in reproducing his speech, necessarily somewhat condensed, on later pages of this issue of ACCOUNTANCY. The local authorities are so important as spenders of their own and the central Government's funds on

capital goods of many different kinds, and they must occupy such a key position in any plans that may be drawn up for achieving capital economies, that Mr. Ainsworth's authoritative and well-documented analysis of their rôle in our capital-starved economy is of special significance.

Mr. Ainsworth demonstrated clearly how the local authorities, like most other potential purchasers of capital goods, have pitched their expected demands too high. Their overall estimate of £550 million for the year 1946-47 compared with their actual expenditure of £150 million in 1938-39; a test enquiry showed that probably no more than 40 per cent. of the requirements put down by them for 1946-47 would be satisfied. He entered a cogent plea for more realistic planning and estimating by the local authorities. "Here is posed a problem of policy which must be answered if local authorities are to order their affairs, as they will undoubtedly wish to do, in the interests of national economic policy."

It was not an appropriate part of Mr. Ainsworth's thesis to carry the argument farther, and to urge that all capital requirements, whether within or outside the field of the local authorities, should be rigidly and carefully reviewed. But this wider planning is undoubtedly necessary and urgent. The *Economic Survey for 1947* laid down the broad lines of the distribution of work on capital equipment and maintenance in 1947—20 per cent. of the total national income was to be allocated to this sector of the economy, and that percentage was to be divided among seven wide classes of demands. But a considerably more detailed plan is now indispensable; more thought needs to be given to the fixing of realistic estimates of the volume of capital goods that will be available to the numerous industries and services requiring them. In particular, decisions need to be taken on the vital issue of the extent to which we are to patch up our existing plant and machinery, in order to tide ourselves over the next few years, and the extent to which we are, as an alternative, to engage in large-scale schemes of modernisation and construction.

The prime need is, therefore, that we face this problem in the only way any budgeting question can be finally solved—by putting figures down on the two sides of an account and adjusting them until no debit balance is left. We must, that is, have a capital budget. If we can enlarge the credit entries by assistance from America under the Marshall plan, so much to the good; the cuts on our capital expenditure—the debit entries—would not then be so drastic. But it would be improvident, and unwise from the viewpoint of the American attitude to our needs, to await the formulation of that plan before considering the capital budget. It remains as true as it was during the war that the British people respond best when they know all the grim facts of a grim situation—and in this particular matter they appear to be largely in the dark. What is worse, the hard thinking which would have to be done to construct a capital budget is apparently not now being done. It is high time it was begun.

Capital Expenditure and Local Authorities*

By JOHN AINSWORTH, M.B.E., F.I.M.T.A., F.S.A.A., City Treasurer, Liverpool

At no time in our history have the allied sciences of economics and statistics been called upon to aid the art of government to so great an extent as at the present, and it may well prove that upon the accurate diagnosis of the data made available by the economist and the statistician will depend the success or otherwise of our struggle towards economic recovery. Amongst the varied problems comprehended by the White Papers and the statistical digests with which we have been liberally supplied during the past few years there are many which affect local government administration, and it would be quite impossible in one session of a conference such as this to analyse them all. I therefore propose to examine in some detail only one of them, namely, the volume and direction of local authority capital investment, and the probable effect upon it of the economic conditions which have been revealed in the various government publications.

Economy, as we now understand it, is the most efficient deployment of labour and materials, and in this context it became increasingly obvious that, as we moved from destruction to reconstruction, the post-war limitation both of materials and labour would necessitate some overall examination and review of the things we would like to do, in order to establish priority for the things we must do.

Local Authorities' Estimated Capital Expenditure

In a short paper which I was privileged to submit to the Regional Conference organised by the Metropolitan and Home Counties Branch of the Institute in London on December 6, 1946, I had the temerity to focus attention on the aggregate of the estimates of capital expenditure for the year 1946-47 submitted to the Minister of Health by local authorities. Their total was £550,000,000. In the year 1938-39, when labour and materials were in abundant supply, the actual capital expenditure incurred by local authorities was £150,000,000, so that even allowing for the decreased value of money there appeared to be in the limited field of local authority administration alone ample evidence of over-optimistic planning of capital investment.

It has, I think, become obvious, however, that planning of capital expenditure must be controlled to bring it into relation to national resources. Planning and control together postulate a careful assessment both of requirements and resources, and whilst under present conditions demand far exceeds supply, some process of deciding priorities has become an urgent necessity.

What then is the broad implication of the *Economic Survey for 1947*? Is it not in the short term, and until

production balances requirements, the first step in an economy campaign? Its propositions are pointers to the achievement of that much abused term "economy", not by a disruptive cutting of established services such as we have previously experienced, but by a studied attempt to put first things first in the most efficient use of the limited supplies of manpower and materials. To quote from the document itself at paragraph 23:

"The economic budgets . . . must be balanced, by measures to increase resources or to curtail requirements. Otherwise less essentials will push essentials out of the queue. Too many luxuries will be produced and not enough food and clothes and coal; too many toys and not enough children's boots; too many greyhound tracks and not enough houses."

In the interpretation of these metaphors in their application to local government, for those who are concerned with administration in that sphere, and particularly those present to-day who are Chairmen of Finance Committees, there is posed the question, what are the necessities and what the luxuries—what are the "boots" and what the "toys" in local government expenditure?

Local Authorities' Part in Anti-Cyclical Investment Policy

The underlying theme of the White Paper on Employment Policy was the fear of deflation after the war and the formulation of the steps necessary to maintain a stable level of total internal expenditure. Local authorities, as substantial participants in the volume of total capital investment, were given an important place in the policies postulated for the post-war period, and in this respect they appeared in a different setting from that which had previously been theirs. It was observed that in the past public capital expenditure had fluctuated considerably, principally because public authorities had taken the view (and here may I observe, generally at the suggestion of the Government of the day) that in a period of depression, when their revenue was precarious, economy in capital expenditure was the right policy. For the future, the White Paper suggested that public investment, both in timing and volume, must be carefully balanced to set off unavoidable fluctuations in private investment.

Enlarging upon this theme it was pointed out that only a small proportion of public capital expenditure is undertaken directly by the central Government, and that by far the larger part was within the control of local authorities and public utility undertakings. In the past capital expenditure by these authorities had generally followed the same trend as that of private capital investment, falling in times of slump and rising in times of boom, and thereby accentuating the peaks and depressions of the trade cycle. For the future, however, the policy of the Government, so far as lay within its power, would be to smooth

* This article is a condensed version of the Presidential Address delivered by Mr. Ainsworth at the Annual Meeting and Conference of the Institute of Municipal Treasurers and Accountants held at Torquay on June 18 to June 20. Mr. Ainsworth is a member of the Council of the Society of Incorporated Accountants.

out these accentuations, and to this end it was desirable that public investment should expand when private investment was declining and should contract in times of boom. It was, however, realised that there were limitations to this policy since a large volume of local authority capital investment is dictated by urgent public policy on such things as housing, schools and hospitals, which cannot readily be postponed to serve the purposes of national employment policy. This proposition is repeated in the *Economic Survey for 1947*.

In order that the Government might exercise such control as was open to it in the furtherance of national economic policy, it was indicated that local authorities would be asked to submit annually programmes of capital expenditure for the succeeding five years. For the first of these years the plans would be worked out in some detail and would be ready for immediate operation, whilst for the later years they would necessarily be tentative and provisional. *These programmes would be assembled by an "appropriate co-ordinating body" and adjusted upward or downward in the light of the latest information on the employment situation.* The machinery proposed for this adjustment was the normal one of withholding or accelerating the granting of the appropriate loan sanctions. If "availability of materials and labour" is substituted for the "employment situation," I think we find that in this respect the propositions of the White Paper on Employment Policy are very much in line with those of the *Economic Survey for 1947*.

The White Paper on Employment Policy contained other references which were of significance to those engaged in local government financial administration either as Chairmen of Finance Committees or financial officers. It stated, for example, that if the finances of local authorities were prudently administered and a proper relation kept between the growth of capital expenditure and the *buoyancy of rate income* it was unlikely that the growth of their indebtedness would involve an intolerable burden on local rates. Many here to-day will question the validity of the proposition that rate income is "buoyant" in the sense that this term is normally used in relation to taxation. Local taxation does not in fact, as is the case of national taxation, rise and fall substantially in relation to the level of personal incomes but merely reflects industrial prosperity or depression by a marginal change principally related to the rise or fall in the number of occupied rateable hereditaments.

Further, the weight of the burden of capital expenditure upon local authorities, *when both its timing and the interest payable upon it are the subject of control*, will be dependent on the level of interest rates. It would be unfortunate if the deliberate expansion of local authority capital investment at the behest of national policy coincided with an equally deliberate relaxation in the control of interest rates.

The machinery for harnessing post-war capital investment, both public and private, to the needs of national economic policy, began to take shape in the Local Authorities Loans Act, 1945, and the Borrowing (Control and Guarantees) Act, 1946. The provisions of the Local Authorities Loans Act are too well known to those

present to-day to need recapitulation. In so far as the need for central control of local authority borrowing is admitted, the machinery evolved, leaving as it does a margin of freedom for local initiative, has, I think, proved satisfactory and probably considerably less onerous than was originally anticipated.

The close attention of local government financial officers was subsequently focused upon the operations of the Public Works Loan Commissioners, destined by the Act to play a far greater part in local government finance than at any previous period, and whose procedure prior to 1939 was the subject of considerable criticisms, both on grounds of policy and of administrative inconvenience.

If I may express a personal opinion it would be to say that the improvements in procedure effected in anticipation of the 1945 Act and subsequently have, in the main, been a success. Capital funds have been made available promptly and under such conditions as to interest and other matters that local authorities have reason to be satisfied with the result, in spite of their natural reluctance to surrender their independence in yet another important field of their administration.

His Majesty's Treasury and the Commissioners have shown themselves willing, and indeed anxious, within the limits imposed upon them by Parliament, to meet the legitimate representations made to them on behalf of local authorities. Such inconveniences as remain are principally administrative in character, and it appears that from the experience gained in actual working they are being successfully smoothed out.

The National Investment Council

The "appropriate co-ordinating body" projected in the White Paper on Employment Policy as the instrument for planning national capital investment made its appearance on the introduction of the Borrowing (Control and Guarantees) Bill in January, 1946. On that occasion the Chancellor of the Exchequer explained that the purpose of the Bill was to help the Government to control the flow and direction of new capital investment and to stimulate that flow when necessary. The order of priority of schemes for the raising of new capital should be determined by one criterion only, namely, their relative importance in the national interest. With this end in view it was proposed to create the National Investment Council, which would advise the Government in so organising and stimulating investment as to promote full employment.

The membership of the Council was to include the Governor of the Bank of England and the Chairmen of the Capital Issues Committee, the Public Works Loan Board, the London Stock Exchange, and the two Finance Corporations for Industry. The Council would also include a prominent trade union leader, the Chairman of the Finance Committee of the Co-operative Wholesale Society, and other members representative of the financial, economic and industrial life of the community.

I cannot help but feel that an experienced Chairman of a Local Authority Finance Committee would have made a valuable contribution to the deliberations of the Council, and at the same time acted as a link between the Council and the various Associations of Local Authorities. Indeed, I would have thought that such a link was imperative if local authorities are intelligently to apply the realities of the present economic situation to their schemes of capital development, and to plan, as they are asked to do, on a realistic basis.

Assessment of Priorities

The *Economic Survey* states quite bluntly that at the present time there is a large excess of requirements over resources and that a balance must be achieved either

by increasing resources or curtailing requirements. With equal bluntness it states that *the allocation of resources between the various streams of national requirements is at the present time a problem of deciding which, out of a number of claimants, must go short*; in other words, which are the more important national priorities?

The provision of new equipment and maintenance for the basic industries, the building programme, and the work of industrial re-equipment generally represents a formidable task for the nation for many years ahead, and it cannot all be done at once. The *Survey* says quite frankly that the exercise of control over capital investment may postpone schemes of value to industry or of great social value, but this is unavoidable. The need for a careful scrutiny becomes greater rather than less as the pressure on available resources increases.

The frankness with which the *Economic Survey* poses the problem is at once a tribute to the courage of its authors and a challenge to those who have a part to play in achieving its objects. Amongst the latter must be the local authorities of the country, and in particular those who are responsible for their financial administration. It is against this background that Chairmen of Finance Committees will recall the wording of the Ministry of Health Circular of January 27, 1947, which invited local authorities to submit estimates of capital expenditure for 1947-48 and the two succeeding years. They will not have overlooked the significance of the following extract from the circular:

"It is essential that the estimates be framed on the basis of thorough realism, taking into account the marked excess of demand over supply *which should be assumed to continue throughout the period covered by the estimate.*"

The circular further stated that the Government attached the utmost importance to the information supplied by local authorities in these returns in connection with the arrangements aimed at maintaining employment.

"The information is valuable in two ways, first as an aid in distributing resources fairly between competing claims, and second, as part of the policy for stimulating investment when demand shows signs of falling behind resources. *The Minister, therefore, confidently asks for prompt returns from the local authorities.*"

Over-Optimistic Planning

At the time of writing this paper the aggregate of the capital estimates for 1947-48 is not available. By the courtesy of the Accountant-General to the Ministry of Health (Mr. H. H. George, C.B., M.C.) I am able to include some interesting details of the estimates submitted for the year 1946-47, together with the corresponding figures of actual expenditure for 1938-39.

		Estimate, 1946-47	Actual, 1938-39
		£'000	£'000
Housing	...	319,202	46,601
Electricity	...	47,463	20,125
Health	...	43,208	15,956
Education	...	40,099	15,596
Highways	...	29,252	15,257
Water	...	21,505	7,439
Transport	...	8,787	3,452
Gas	...	7,464	1,999
Municipal Buildings	...	2,679	3,553
Harbours, Piers, etc.	...	1,137	1,357
List "B" Services	...	34,227	18,727
		£555,023	£150,062

In December, 1946, the Ministry of Health made a test inquiry from a number of selected authorities in order to form an assessment as to how actual expenditure was proceeding in relation to the estimates set out above.

The total estimated capital expenditure included in column 2 above of the selected authorities to whom the inquiry was addressed amounted to £134,354,000, whilst the test inquiry revealed that the actual expenditure at March 31, 1947, against this estimate, would probably be £52,685,000, or 39 per cent.

The figures I have quoted speak, I think, for themselves. Obviously there is an enormous reservoir of capital work awaiting to be put into execution by local authorities if and when the time comes to operate the policy laid down for maintaining a high and stable level of employment. Under present conditions, however, I suggest that it is apparent that the overall estimate of £550,000,000 for 1946-47 compared with the actual expenditure of £150,000,000 in 1938-39, when labour and materials were in adequate supply, is over-optimistic planning and is not conforming to the realities of the present situation.

May I apply a further test? The *Economic Survey* in its estimate of the distribution of the total national resources allocates £1,700 million (being 20 per cent. of the whole) to capital investments of all kinds. To satisfy in full the needs of local authorities based on the 1946-47 estimates would appropriate more than one-third of the sum available for capital investment of all kinds.

In my view it seems obvious that, in the short run at least, there must be a scaling down in the total of local authority plans for capital investment and an establishment of priorities based upon national urgency. The task of attributing to each service its relative importance is not without difficulty even in local government, and Chairmen of Finance Committees here to-day, fresh as they are from the task of budgeting, will know from Chairmen of other Committees that there is no one local authority service one whit less essential than any other.

In any event an attribution of priorities in local government service is a matter of policy outside my province. Nevertheless the various official publications enable us to examine the problem objectively within rather wide limits.

The *Economic Survey* for 1947 gives only a broad indication so far as local authorities are concerned. The following extract from the *Survey* at paragraph 117 is of considerable importance:

"The Government is aiming at a distribution of work on capital equipment and maintenance in 1947 on the following lines:

Construction.	Per cent.	Per cent.
Housing	...	20
New industrial building	...	6
Other building and maintenance, including war damage repairs	...	22
		48
Plant.		
Electricity, gas, Post Office	...	9
Roads, bridges, docks, harbours, canals, etc.	...	4
Railways, commercial road vehicles, shipping and civil aviation	...	15
Plant for industry, mining and agriculture	...	24
		52
		100 "

The Survey also states that "the programmes for education and public health must go forward and a proper degree of efficiency of the public services must be maintained."

There is, however, apparently an inner list of priorities within those mentioned above, for on May 12, 1947, the Iron and Steel Board (Ministry of Supply) issued the following statement:

"His Majesty's Government has had under review the relative importance of the multifarious demands on the available supplies of finished steel, and has decided that the following six requirements are those to which shall be afforded first priority:

- (1) Electricity generating plant required by electricity undertakings.
- (2) Machinery and equipment for deep-mined and open-cast coal production.
- (3) Plant and equipment required by gas undertakings.
- (4) Equipment for the coal/oil conversion programme.
- (5) Freight locomotives, railway wagons for the transport of coal, and steel rails for essential maintenance of the permanent way.
- (6) Atomic energy projects.

There is no order of preference between the six requirements specified. It must be clearly understood

that demands on the steel industry which fall outside the six categories specified above must give way in all circumstances to the requirements listed."

It will be observed that the *Economic Survey* gives housing pride of place amongst local authority services, a conclusion which by any test would, I think, be approved by a conference of local authority representatives.

Fortunately the housing programme is not dependent upon a high proportion of steel, but how does the list of priorities for this commodity set out above affect the plans of local authorities for capital expenditure in respect of their other services? What, for example, will be its effect upon the programmes for roads, bridges, schools, hospitals, libraries, police headquarters, and the rest? In particular, what is likely to be its effect upon the rebuilding of the centres of our blitzed towns? The work to be done there comprises in the main the rebuilding of stores, shops, offices, banks, places of entertainment and other commercial development which, although rich in rateable value, and in this respect vital to the finances of the local authorities concerned, is not presumably in the front line of "The Battle for Output." What are their places in the queue? What are, metaphorically, "the boots" and what "the toys" in local government?

Statistics and the Accountancy Student

By W. A. FOLLOWS, Incorporated Accountant

It is not difficult to imagine the reaction of students to the decision, many years ago, to add statistics to the examination syllabus of the Society of Incorporated Accountants. Any innovation is looked upon with suspicion; when, at the same time, it represents a further hurdle for the student to negotiate, its immediate unpopularity is assured. It is surprising, however, to find that, far from becoming reconciled to its inclusion, each succeeding generation of students has been equally hostile to the subject, and it does seem worth while to ask why it should be almost universally contemned. Whilst examination subjects are all, to a greater or less degree, unpopular with students, the dislike can scarcely be for the subjects *as* subjects—the stream of entrants to the profession would very soon become dry if the subject-matter of accountancy were disliked. It must rather be for the examination ordeal with which the subjects are associated. Yet it is precisely here that the student's attitude to statistics is so different from his attitude to, say, bankruptcy and liquidation. With its heavy tax on the memory, the latter subject is probably the most troublesome in the syllabus, but the student knows that it must be mastered if he is to obtain the fullest advantage from his chosen career. Statistics, however, he feels is a quite unnecessary evil. "Shall I ever," he asks, "need standard deviation or the correlation coefficient? Of what practical use are mode, median, skewness and the rest to my future career?" The inevitable result is that he usually devotes the minimum effort to the subject and, once qualified, dismisses it from his mind.

The Symbols and Formulae

Before discussing this question of the utility of statistics, it is perhaps worth while touching upon a lesser, but very potent, reason for its unpopularity—its apparently complicated mathematical nature. There is undoubtedly a fear in the minds of many students of the symbols and formulae interspersed throughout the textbooks. This fear is unfounded, and should be dismissed at once. Statistical symbols are merely a convenient form of shorthand designed to save time. To use, say, " a " for "arithmetic mean" or " σ " for "standard deviation" is clearly a great advantage—not least in the examination room, where time is always at a premium. Further, once the symbols are understood, most of the difficulty of the formulae themselves disappears. Statistical formulae are calculated or adduced from experience by highly qualified mathematicians, and accountancy students are not, generally speaking, expected to be able to prove their validity. The formulae are for the most part (especially the really difficult ones) to be accepted and memorised. Their application, by substituting for the symbols the appropriate values in the question, is mere arithmetic. The symbolic side of statistics, then, is a test of memory—nothing more.

The Basis of Sound Advice

The doubt as to the practical value of statistics raises a more fundamental question. Most students, of course, are young clerks and have little opportunity of knowing the higher problems which beset their principals, or the methods employed in the large industrial undertakings and Government Depart-

ments. It is no satisfaction to them, however, to be told that some day they will appreciate the value of statistics. If the subject merits inclusion in the examination syllabus, students should be convinced of that importance when they are still students, and only by an understanding of the true significance of the accountant to the community can this conviction be reached. The accountant is often said to be indispensable to our modern economy. This indispensability, however, has a deeper foundation than his more obvious services in the preparation and audit of accounts, income-tax computations, etc., important as they undoubtedly are. The modern accountant's essential importance lies in his function as adviser to commerce, industry and government—a function which is being exercised every day at all levels of economic structure and by every type of accountant, in practice, in the employment of industry and government, as company directors or as members of Government Commissions. The cumulative effect of this constant stream of advice cannot be remotely calculated, but it is all the more vital that it should be sound.

Presentation and Interpretation

Every business decision has its own effect, however slight, on the national income, and each one of those decisions is founded, consciously or unconsciously, on a translation of economic activity into numerical statements. Further, this "translation" is taking place not only at the level of the individual producer or entrepreneur, but also at many other higher levels, e.g., by trade federations, technical journals and Government Departments. Therefore, since economic statistics in the last resort are the raw material of political opinion and governmental action, it is imperative that at each one of those levels the statistics produced shall be reliable and displayed in the most significant manner. Now accountants, as a body, comprising members in practice, in commerce and industry, and in central and local government, have their fingers on the very pulse of economic life. Their familiarity with and access to the records of every type of undertaking gives them at least an *a priori* right to say what those records really mean. That right, however, involves an equal responsibility. In addition to their training in the technical side of accountancy, they must also be versed in the art of presenting and interpreting the statistics their technical knowledge has enabled them to extract. Above all, they must be capable of interpreting and criticising statistics presented by other people—one of the highest services which they can render to the community.

Avoidance and Detection of Bias

"There are three sorts of lies—lies, damned lies, and statistics." In Emerson's epigram, coupled with the familiar "Figures can't lie" and "Figures can prove anything" lies the very heart of the matter, and the whole *raison d'être* of statistical science, which is the study of the techniques which can be used in the collection, presentation and interpretation of numerical data. It teaches how to avoid the pitfalls awaiting anyone dealing with large masses of figures, and how to reduce those figures into a few significant

relationships. But—published statistics being used by many people completely unversed in statistical technicalities—the outstanding contribution of statistical training is the ability it gives to display those relationships in the most intelligible and unambiguous manner.

Each of us, mentally, is a synthesis of many biases, and it is inherent in human nature to seek in any statement a meaning consistent with one's own bias. Professionally, however, our personal bias must be curbed. We can doubtless resist any temptation to present figures in a form which would mislead, merely in order that the inference to be drawn from them should suit our own wishes. The real danger lies in misleading unconsciously, and it is in the neutralising of this danger that a statistical training is so valuable to accountants. How to approach numerical statements in a spirit of scientific scepticism and detachment, and how to present them logically and without bias is the object of the training. The very learning of the rules will tend to correct personal bias. If, in order to support any thesis, it is necessary to ignore or sidestep one of these rules, the presence of bias is immediately revealed. Statistical science, then, is above all a powerful aid to intellectual honesty.

The Accountant as Watchdog

In these difficult times, when every shade of political opinion has its own solution to our problems (each solution purporting to be founded on statistical analysis) it is urged that accountants, in addition to their responsibility to their clients or employers, have a clear and unmistakable duty to society as a whole. Not only must they themselves produce unimpeachable statistics, but also, at every opportunity, they must draw attention to unreliable or ambiguous statistics and to unwarrantable and fallacious conclusions drawn from them. With his unique knowledge of business and government, and his training in statistical methods, the accountant, through his professional body, is in the position of watchdog for the unqualified and uninformed public. If he, or his Society or Institute, refuses to bark when necessary, he and they have failed in a public trust.

If the accountancy student will accept this view of the significance of his future profession, lack of opportunity will not blind him to the value of his statistical training. He will examine all kinds of published statistics in the light of his studies, and try to extract their true meaning. By so doing, he will reach opinions on matters of public moment which, at least, are based on logical reasoning—an advantage not merely to himself but to society as a whole, which, after all, is governed by opinion. The more informed that opinion, the more successful are society's actions likely to be. Statistics, then, should be looked upon as the final polish to the accountant's qualification, converting it from a mere professional diploma to a social asset.

Such an approach to statistics and their wider duty by accountants as a whole could have but one ultimate result. The profession would at last achieve its rightful position—the essential independent and authoritative bridge between business on the one hand and government on the other.

Let's Be Cheerful

[Contributed]

Cheerfulness is a great tonic for the body politic as well as for the body physical. It increases the powers of resistance, rebuilds the strength, creates a joy in the overcoming of difficulties, and it is infectious. Everyone knows the devastating effect of moaning, which can spread like a blight and produce a universal state of misery. In this country we have had a Government with new ideas for the past two years. Have people become morbid at the prospect of fundamental changes in the structure of national and international institutions? The virus has been working not only in this country, but throughout the world. This may be due to the interdependence of all nations, but that fact in itself gives strength to the suggestion that a tonic of world cheerfulness would have an exhilarating effect throughout the four quarters of the globe. Shortages, rations, taxation, strikes, controls, ideologies, all play their part in creating a feeling of disquiet which places a great strain on the ability to remain cheerful. In times past towns were besieged, then counties, then countries, then continents; but to-day the world is besieged—and, oddly enough, besieged by its own alarms. The four freedoms are menaced by the four fears, but cheerfulness is the arch-enemy of fear and can overthrow it without loss of blood or treasure. So let's be cheerful.

It cannot be said that this is the ostrich policy of burying the head in the sand and refusing to see what is going on around. Cheerfulness does not connote an ignorance of economic laws and facts; it does not signify a refusal to recognise the problems of to-day and of to-morrow; but it makes the task of grappling such problems a real joy and an occasion of pride in the reserves of strength which are available. History provides many instances of lack of faith in the future of this country on the part of really great men in the past. To quote only one example, a leading statesman said in 1849 that "in industry, commerce and agriculture there is no hope." Was his faith in the people sadly lacking, or was the utterance merely an example of the "duty to oppose"? Certainly the prognostications of many leaders of the last century were falsified by subsequent events, and encourage the belief that prophets of woe need not be taken at their own values. On what grounds, then, can there be found justification for the advice, "let's be cheerful"? History supplies the answer that the resilience of the people of this country has overcome greater difficulties in the past, when the standards of life were much lower, when the freedom of the people was but a skeleton of the freedom which is enjoyed to-day—even though to-day's freedom may be thought to be unnecessarily restricted—and when

the voice of the people played a very minor part in the choice of the Government of the day.

But it must not be overlooked that cheerfulness is anathema to certain types of people who would not hesitate to impute unworthy motives to persons who refused to wear a woeful countenance, and who declined to be intimidated or dismayed by difficulties, some of which might be very real, while others might be artificially created for a variety of reasons, or none. The strong line of argument of this section of the people is that the worst is not yet known, that more restrictions and more siege economy are to be expected, and that if we fail to be mournful about the present we must at least be appalled about the future. The answer surely is more than ever that a spirit of cheerfulness must drive out the fatal spirit of despair. The greater the problem, the greater the need for a smile. Even cheerfulness calls for a certain amount of courage and a disregard of the venom of the backbiter.

The technique of business is being changed slowly but surely to meet the altered conditions of world trade, and trite though it may sound it remains true that the dominating factor in national progress is not money but the character of the people. Business proprietorship has a wider meaning to-day than ever before, but the process of evolution in that direction has been steadily pursuing its course since the first early seeds of profit-sharing schemes were planted. The part played by inventions in the past can be measured, but no one can foresee the inventions of the next half-century. The whole atmosphere of the business world is charged with electric and atomic possibilities which can be harnessed for the benefit of the human race and which may open up a vista of well-being for the rising generations far higher than that of their parents and grandparents. Much might be said about the joy of earning, the creation of opportunities, and the ultimate satisfaction of work well done. Those subjects cover, perhaps, a different line of research, but they tend to raise the spirits and count for much in the world of commerce. The accountant, more than anyone else, in his capacity of the business doctor, knows the value of cheerfulness and the strengthening effect of that quality, particularly in times of stress. Is there a difficult meeting to be handled or negotiations to be carried through where the issue may be turned either way by a facial expression? Every chairman knows the almost disproportionate value of a cheery outlook, which need have no relation to optimism or pessimism.

Cheerfulness can win great battles in face of fearful odds. There need be no smug complacency or vaunted ignorance of facts as they exist, but rather a full appreciation of the magnitude of the task that lies ahead. So let's be cheerful.

TAXATION **The Finance Bill—Bonus Issues**

The impost of a 10 per cent. stamp duty on all capital bonuses to shareholders should, on the face of it, be a simple matter, requiring a few words only in a Finance Bill. As is becoming only too common, however, the necessity for covering every possible set of circumstances has produced the usual difficult phraseology, which we try to unravel below.

Liability

The duty applies only to companies incorporated or formed in Great Britain, and applies to:

- (a) any issue of securities, i.e., shares or debentures, or
- (b) any variation of the rights or liabilities attached to any securities, either by increasing the capital sums payable to holders or by reducing the sums payable by them

where such issue or variation is by way of bonus to members or debenture holders of the company, or of any other company.

Any such bonus must be notified by the company to the Commissioners of Inland Revenue one month after the allotment of the securities by way of bonus (after the passing of the Act if the allotment was before this date). The penalty for default is a maximum of £50 a day, and interest at 5 per cent. on the duty. Issues, etc., made prior to April 16, 1947, or authorised by the Capital Issues Committee prior to that date, are exempted, provided in the latter case that the issue was announced to the members or debenture holders before that date.

What is a Bonus Issue?

Securities are to be deemed to be issued when they are allotted, and to be issued by way of bonus if—

- (a) the right to the securities (even if renounceable or assignable) is conferred on members or debenture holders; or
- (b) the securities are issued in pursuance of:
 - (i) an offer made specially to them (including an offer providing special terms to them as compared with other persons), or
 - (ii) applications in which preference is given to them;
- (c) the securities or letters of right are sold with a view to such an issue as in (b).

Valuation

If the letters of right are quoted on a recognised Stock Exchange, the valuation of the bonus is the aggregate value of the letters of right on the first day they are quoted, less the aggregate consideration receivable by the company. If the letters of right are not quoted, but the securities are quoted within a month after allotment, the valuation of the securities to be made on the first day of quotation, and the excess over the consideration is chargeable as the value of the bonus.

In any other case, the securities must be valued on the date of allotment, the bonus being the excess of such valuation over the consideration.

In a straightforward case, the above is simple, except in the case of unquoted securities. It may be, however, that different securities of the same class must be valued in different ways, e.g., where some are quoted and some not, or some are quoted at different dates from others. In those circumstances, the value of the whole is to be fixed by reference to the value of the proportion earliest quoted.

The valuation of unquoted securities or rights of a public company is to be made on the same principles as would apply for estate duty (ignoring Sections 55

and 56, F.A., 1940), i.e., at the price they could be expected to fetch if sold in the open market on the day of issue, but disregarding any consideration consisting (a) of the retention by the company of anything distributable among members or debenture holders, or (b) any prospective liability (contingent or not) attached to the securities or letters of right.

In the case of a private company, (b) above does not apply, but no deduction is to be made in relation to any liability to pay for the securities or any liability attached to them, for the fact that the liability is prospective or contingent. Otherwise, the valuation is the same as for a public company, save that, if the issue is of securities other than redeemable preference shares and irredeemable debentures or debentures redeemable at a price which is not fixed and the same for all circumstances, shares are to be valued at their nominal value and debentures at their redeemable price.

If the securities or letters of right are sold with a view to a bonus issue, the word "sale" takes the place of the word "allotment" in the above, and the consideration is that receivable on the sale, not that actually receivable by the company.

Variation of Rights or Liabilities

A variation of rights or liabilities attached to a company's securities will be deemed to be by way of bonus so far as made in consideration of the retention by the company, by way of set-off or otherwise, of sums or property distributable among its members or debenture holders, e.g., a bonus declared to be applied in paying up calls, etc.

Comment

It is apposite here to consider the true nature of a bonus. Consider the following summarised balance sheet:

	£		£
Share Capital (all one class) ...	240,000	Assets ...	500,000
Profits undistributed	120,000		
	<hr/> 360,000		
Creditors and provisions for tax ...	140,000		
	<hr/> £500,000		<hr/> £500,000

If the assets are valued on a going concern basis (including any amount shown among the assets in respect of goodwill), the shares are worth 30s. each. On the company capitalising the undistributed profits and using them to pay up a bonus issue at par, the shares would be worth 20s. each, as the net assets remain the same. Whereas the shareholders previously held 240,000 shares worth £360,000, they now hold 360,000 shares worth £360,000. That is the true nature of a bonus issue, and it is only misunderstanding of the facts that can have led the Treasury into taxing such bonuses. The effect in such a case as the above will be that the company will pay £10,909 in stamp duty and issue 109,091 shares. All shares will then be worth £1, but the shareholders individually have lost 10'9d. per share.

It is true that a bonus issue of quoted shares often results in an increase in the aggregate quoted price of the whole of the shares. This, however, arises from entirely different reasons, namely, either the speculative element inherent in some dealings, or anticipated increases in dividends completely disassociated from the bonus issue itself.

Consider these facts:

	£	Assets ...	£
Share Capital:			370,000
200,000 £1 shares ...	200,000		
Profits undistributed	110,000		
Creditors, etc.	60,000		
	<u>£370,000</u>		<u>£370,000</u>

The company has been paying a regular dividend of 12 per cent., and the shares are quoted at £3 each. What is the true meaning of the premium on the shares? Surely that (ignoring any accrued dividend) there is unrecorded goodwill of £400,000 less £110,000 = £290,000. No matter how temporary it is, the value at any date of goodwill is excess of the saleable value of the business over the net assets.

If the company capitalises £100,000 profits and issues shares, the 300,000 shares are now worth £600,000, or £2 each (or after stamp duty, they are worth £590,000, or 39s. 4d. each).

Investors would possibly pay more, on the hope that the company would not cut its dividend proportionately, but would be able to pay say 10 per cent. on the increased capital and not 8 per cent., as they would if they distributed the same amount of profits as hitherto.

That is the position on rising markets, such as we have had in recent years, but if markets set back, as they may when accounts showing the results of the fuel cuts, etc., begin to come out, the effects of bonus issues may be very different.

From the accountant's viewpoint, the introduction of this new duty shows a very curious appreciation of the facts of bonus issues.

Taxation Notes

The Profits Tax

It seems to be a retrograde step to complicate computations of the profits tax in the way the Finance Bill proposes. Hitherto, this has been a comparatively simple tax, and it is regretted that simplicity is being cast aside.

On a point of draftsmanship, we hear of many readers who spent a considerable time in hunting for a definition of "franked investment income" before realising that clause 26 supplied it in the following words:

"Any reference in any enactment relating to the profits tax to franked investment income shall be construed as a reference to the income which would be included in the profits if paragraphs (a) and (b) of the preceding sub-paragraph had been omitted. . ."

It would be an advantage if drafting were done in the language of the explanatory memoranda issued on the Income Tax Act, 1945. If that is impossible—which we cannot believe—then can we not have explanatory memoranda on all Finance Acts?

An example of the complications is contained in the following computation based on what appears to be the meaning of the Bill:

DIRECTOR-CONTROLLED COMPANY			
Trading profits ...	£4,500		
Directors' remuneration charged	2,500		
Franked investment income ...	500		
Other investment income	300		
	<u>£7,800</u>		
Deduct directors' remuneration allowable ...	1,500		
Profits including franked investment income ...	<u>£6,300</u>		
Profits excluding investment income ...	<u>£5,800</u>		
Abatement:			
5,800 × £12,000—6,300		1,050	
6,300 × 5			
		<u>£4,750</u>	
Distribution:			
Excess directors' remuneration	£1,000		
Dividend ...	2,000		
	<u>£3,000</u>		

P.T. 12½ per cent. on £4,750 = ... £593 15 0

Less:

Relief for non-distribution—
Profits as above ... £4,750

Net relevant distribution:

4,750
6,300 × £3,000 = ... 2,262

7½ per cent. on ... £2,488 186 12 0

Net P.T. payable ... £407 3 0

The theory that appears to underly the provisions is as follows:

Total profits ... £6,300

Abatement on £6,300:

£12,000—6,300
5
1,140
5,160

Exempted income (franked investments) ... £500

Less abatement appropriate thereto:

500
6,300 × £1,140 90
410

Profits chargeable ... £4,750

Profits distributed ... 3,000

Less abatement appropriate thereto:

3,000
6,300 × £1,140 ... 543
2,457

Less paid out of franked investment income:

3,000
6,300 × £410 ... 195

£2,262 at 12½% = £282 15 0

Profits retained £2,800 + £500 = ... £3,300

Less abatement appropriate thereto:

3,300			
$\frac{3,300}{6,300} \times £1,140$...	597	
		2,703	
Less exempted income:			
3,300			
$\frac{3,300}{6,300} \times £410$...	215	
		$£2,488 \text{ at } 5\% =$	124 8 0
Profits tax payable	$£407 \text{ 3 0}$

The trouble seems to be inherent in the refusal of the official mind to scrap an existing system and start again; the complications come from grafting new branches on to old stems.

Double Taxation Relief

An agreement was signed on May 27, 1947, between the United Kingdom and New Zealand. The text of the agreement, which is very similar to that with Australia, will be published shortly.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Schedule D—Interest awarded under Section 3 of Law Reform (Miscellaneous Provisions) Act, 1934, and included, as provided by the same section, in the total sum for which judgment given—Whether "interest of money" within Schedule D of Income Tax Act, 1918—Schedule D, Charging Rule 1 (b), General Rules, Rule 21—Civil Procedure Act, 1833, Sections 28, 29.

Westminster Bank v. Riches (H. of L., March 21, 1947, T.R. 85) was noted in our issues of June and October 1945, and the House of Lords has now laid down a new general principle. Riches had an agreement with one Ridsdel relating to the purchase and sale of a block of shares whereby any profits on realisation were to be shared equally. Ridsdel fraudulently pretended that the profits were very much less than they actually were. Having discovered this, and Ridsdel having died, Riches brought an action against the bank as judicial trustee of the deceased, and had been given judgment for £36,255, the difference between Riches' share and what had actually been paid to him. But the Judge, exercising his power under Section 3 of the Law Reform (Miscellaneous Provisions) Act, 1934, in addition to giving judgment for this amount, awarded an additional sum of £10,028, being the equivalent of interest at 4 per cent. per annum from June 14, 1936, to May 14, 1943, so that the total sum for which judgment was given was £46,283. The bank had paid the amount due under the judgment, except that it had deducted £5,014 representing income-tax at the rate of 10s. in the £ on the £10,028. (The claim to deduct at 10s. in the £, the rate at the date of payment, was based on Rule 21 of the General Rules, the amount not being paid out of profits or gains brought into charge.) In the Chancery Division, Evershed, J., had decided in favour of the bank, and the Court of Appeal had affirmed his decision that the deduction had rightly been made. A unanimous House of Lords came to the same conclusion.

As mentioned in our note of the Court of Appeal judgments, there were three points raised upon behalf of Riches. First, it was claimed that, fraud being present, the sum awarded as interest was damages and not taxable as interest. Secondly, that for the interest to be "annual" it had to have the quality of recurrence; and, thirdly—a point about which *du Parcq, L.J.*, had expressed doubt—that, even if interest, it would be merged in the judgment debt and thereby cease to be interest. Not all of the judgments dealt with all of these points, because, in view of the major conclusion arrived at, the second and third were obviously regarded as of minor importance. In *In re National Bank of Wales, Ltd.* ((1899) 2 Ch. 629), Wright, J., had refused to allow a director found guilty of misfeasance to deduct tax on interest which he had ordered him to pay on the grounds that it was not "interest," but "damages." This decision was now overruled; and the criterion

established that it is irrelevant whether an amount is called interest or damages. The important distinction for income tax was whether it was received as "capital" or as "income"; and *Glenboig Union Fireclay Co., Ltd. v. C.I.R.* (1922, 1 A.T.C. 142, 12 T.C. 950) was cited as a case where the amount of a capital sum was estimated in terms of interest, but was for income tax purposes capital and not income. Upon the "recurrence" point, their Lordships who dealt with it were agreed that it failed, and their views may be summed up in the words of Lord Wright, who declared that "The sum awarded was the summation of the total of all the recurrent interest items."

Lord Simonds, referring to the third point, which had originated with *du Parcq, L.J.*, and not with counsel, expressed the view that the doctrine of merger had no relevance as between third parties, as, e.g., between the creditor whose award of interest had been merged in the judgment and the Crown. He said that the question remained the same, whether a sum was capital or income, and, if income, whether it was taxable in the hands of the creditor. It did not matter whether it was paid voluntarily or under Court order.

Anything which tends to the simplification of the complex problem of income tax in relation to interest is to be welcomed; but it is to be hoped that the Revenue will, before long, see the necessity of making the rule as to deduction of tax under Rule 21 substantially the same as it is under Rule 19. The present divergence produces inequities and absurdities, and also collusive arrangements.

E.P.T.—Interconnected companies—English company owning more than nine-tenths of the common stock of U.S.A. company—Arrangement between U.K. and U.S.A. whereby shares in U.S.A. company pledged as collateral security for loan in pursuance of Financial Powers (U.S.A. Securities) Act, 1941—Whether English company still beneficial owner of shares—Whether profits of U.S.A. company subject to E.P.T.—Finance Act, 1938, Section 42 (2), 3—Finance (No. 2) Act, 1939, Sections 12 (2), 17, 21—Finance Act, 1940, Section 28: Schedule V, Part 1, paragraphs 1, 2.

The English Sewing Cotton Co., Ltd. v. C.I.R. (K.B.D., July 17, 1946, T.R. 333, C.A., March 14, 1947, T.R. 77) dealt with a question of considerable importance. The main facts are set out in the heading to this note; but, in addition, it may be mentioned that the shares of the American Thread Co. (Inc.), after being requisitioned by the Treasury, had been pledged with the U.S.A. Reconstruction Finance Corporation, blank transfers being executed, and that all dividends on the pledged shares were made payable to the Corporation. In compensation, in accordance with the provisions of the 1941 Act, the Treasury paid to the appellants the sterling equivalent of those dividends. Before the Special Commissioners, the only question of law submitted for the appellant was

that at the relevant time it was not the beneficial owner of the pledged shares; and this argument had been rejected. Before Macnaghten, J., an additional point had been raised, after notice to the Revenue, that, as the profits of the American company arose neither from a trade or business carried on in the U.K., nor from a trade or business carried on by a person ordinarily resident in the U.K., those profits were not within the charge to E.P.T. Macnaghten, J., had held that as the English company, instead of receiving dividends in foreign currency abroad, received the sterling equivalent in London, in ordinary language everyone would say that it was none the less beneficial owner of the shares. As regards the second point, he held that the word "agent" in Section 12 (2) of Finance (No. 2) Act, 1939, should be understood as including a subsidiary company so that the English company was carrying on the American business through the American company as its agent.

In the Court of Appeal, the decision of the Special Commissioners in favour of the Revenue was unanimously affirmed, but for other reasons. The Master of the Rolls gave the only extended judgment, and it is possible to sum up his conclusions very briefly. Upon the first point, he held that when shares were mortgaged, the mortgagor remained the beneficial owner. Upon the second, he disagreed with Macnaghten, J., and held that a company whose shares are controlled by another company was not by the mere existence of that control properly described as its agent. He said that if Section 17 (3) of Finance (No. 2) Act, 1939, had not been repealed by the Finance Act, 1940, the present question could not have arisen, and that it finally resolved itself into the question whether the Fifth Schedule to the latter Act was mere machinery, or whether it imposed a charge upon the taxpayer. If the argument for the appellant were correct, he said, "it would mean that Parliament had made a hideous mistake; and that a great many provisions of the [1940] scheme were completely inoperative." He held that Paragraph 1 (2) of Part I of the Fifth Schedule to the 1940 Act, which directed an "assessment" to be made, must be read as being, in effect, a reference to a charge to tax, and said that it seemed to him that the only way in which effect could be given to the language was to treat the direction for making an assessment as being intended to make the profits liable to tax. Leave to appeal to the House of Lords was refused; but, apparently, application to the Appeals Committee for leave is contemplated.

Income Tax—Merchants and merchant bankers in London, also partners in Australian and Chilean firms controlled abroad—Sums remitted from abroad—Whether remittances of profits from Australia or in repayment of Chilean firm's debt—Schedule D, Case V, Rule 2.

Timbrell v. Lord Aldenham's Exors. (K.B.D., July 24, 1946, T.R. 381, C.A., March 6, 1947, T.R. 69) was one of those cases where the possible significance of certain facts was not appreciated until too late. The third Lord Aldenham was a partner in the well-known City firm of Antony Gibbs & Son, merchants and merchant bankers. There were three other partners in the firm at all relevant times, and the Revenue had appealed from decisions of the City of London Commissioners discharging assessments upon them under Rule 2 of Case V of Schedule D. Macnaghten, J., had reversed the Commissioners' decisions; but a unanimous Court of Appeal restored them. The circumstances of one of the transactions were as briefly set out hereunder.

The four partners in the London firm were partners in an Australian firm and also in a Chilean firm, both of

these firms being controlled abroad. Their interest in the Australian firm during the relevant years varied from 77 to 84 per cent., whilst that in the Chilean firm was 64 per cent. throughout. In both cases, profits and losses were shared in the same proportions. For a number of years the Chilean firm had made losses, and, by 1936, the share of these to be borne by the London partners amounted to over £400,000. Upon the other hand, the Chilean firm owed the London firm upon trading account over £800,000. The Australian firm, upon the contrary, had made profits for 1935 and subsequent years, and, as their shares of previous losses had been made good by debiting the credit balances of the London partners, the latter were entitled to be remitted their shares of any profits, and, on May 2, 1936, the sum of £24,000 was due to them. They wanted the money, but, understandably, desired that it should not be received as income, but as a set-off against their shares in the Chilean losses.

Acting upon the advice of their accountants, they instructed the Australian firm to place the £24,000 to the credit of the Chilean firm, and, simultaneously, that firm, at the request of London, instructed the Australian firm to transfer the amount to London. These transfers were made, and it was a point made by the Revenue that although the profits of the London firm were not shared equally by its partners, they did so share the Australian profits, and the £24,000 was divided equally. For the Revenue it was contended that the entries in the books of the Australian and Chilean firms were book entries, and achieved nothing; and Macnaghten, J. had held that they did not alter the character of the remittance as income. In the Court of Appeal, the Master of the Rolls said that the greater part of international financial operations was by transfers of credits from one country to another made by entries in books in the respective countries, and that by appropriate entries credits could be routed round the world. The London partners had assigned their rights to the Chilean firm which thereby became creditors of the Australian firm, and in that capacity had by assignment reduced its debt to London. The book entries made had altered the character of the remittance; and the Commissioners' finding upon the point was conclusive in that it involved no error of law.

During the case, a new argument was put forward by the Revenue based upon the fact that in the books of the London firm the £24,000 had been appropriated in the accounts as at December, 1935, although the book entries above-mentioned had not been made until the following May. The point not having been raised before the Commissioners, and being one of fact necessitating evidence, the Court refused to allow it to be raised, the Master of the Rolls saying that even if the argument had been admitted, there was nothing to prevent a firm, wishing to close its books, from making anticipatory entries. Somervell, L.J., dealt with this aspect of the case in his judgment; and, as the right to raise in Court new points is a question of both difficulty and importance, his remarks on the subject deserve attention:

"I agree . . . that before the General Commissioners the onus is on the taxpayer to displace the assessment. On the other hand, the taxpayer is entitled to have any points relied on clearly indicated; or, perhaps it would be more accurate to say that, if they are not clearly indicated at that stage, they cannot be relied on later, at any rate in cases where their determination requires further evidence for their proper determination. For these reasons, it seems to me impossible for this Court to entertain Mr. Donovan's submissions with regard to any of these transactions."

The most flagrant of evasion schemes may be pardonable upon occasion, although success, as here, must cause the Revenue considerable misgivings.

Shorter Notices

Sur-tax—Undistributed income of company—Direction and apportionment—Appeal against apportionment—Apportionment discharged by Special Commissioners—Stated case remitted to Special Commissioners by House of Lords for further consideration and to make the proper apportionments—Apportionment amended and confirmed—No demand for further case to be stated—Assessment on appellant—Whether competent—I.T. Act, 1918, Section 133 (2); General Rule 16—F.A., 1922, Sections 21, 49 (1); Schedule I, paragraphs 8, 9, 10—F.A., 1927, Section 42 (7)—F.A., 1936, Section 19 (5).

Latilla v. C.I.R. (K.B.D., March 24, 1947, T.R. 97) was the sequel to *F.P.H. Finance Trust, Ltd. v. C.I.R.* (1945, T.R. 79), last noted in our issue of June, 1945. The Special Commissioners in their administrative capacity had made a direction and apportionment, and the latter had been discharged by them in their appellate capacity. The House of Lords, affirming the decisions of the lower Courts, had found that the appeal had been decided wrongly, and remitted the case to the Special Commissioners to make proper apportionments, a decision which meant that an elaborate sur-tax evasion scheme had failed, at any rate for the time being. The new apportionments were substantially the same as those appealed against originally; and seeing that, as a result, an assessment in the sum of £285,996 was made upon the appellant in respect of the apportionment to his wife, and that there were two other apportionments of similar amount, the amount of tax involved was substantial. For the appellant, three technical objections were made to the assessment, all of which were rejected by Atkinson, J. The case will, no doubt, be carried further; but it is one of specialised interest only.

E.P.T.—Sand and gravel merchant owning land containing gravel and other ballast—Agreements with other firms whereby allowed to take from the same land gravel and ballast subject to royalty—Whether royalties so received part of trading profits or income from investments—Finance (No. 2) Act, 1939, Schedule I, Part I, para. 6.

In *C.I.R. v. Iles* (K.B.D., March 24, 1947, T.R. 115) the facts were as set out in the heading. Mr. Iles contended that what was done by the three other firms was done in their trade or business, and not in his, and that if he had ceased to carry on his business the licensees would have continued as before. The General Commissioners had found in Mr. Iles' favour; and Atkinson, J., affirmed their decision. The key to his judgment is to be found in the words "Mr. Iles was merely exploiting his rights of property by letting other people come and excavate for gravel." In other words, the royalties were not part of trading profits.

Income Tax—Bequest of annuities to be payable "without deduction of income tax up to a maximum of 5s. in the £"—Whether annuitant entitled to retain income tax reliefs.

In *re Arno* (C.A., December 3, 1946, T.R. (1947) 41) was noted in our issue of December, 1946. Roxburgh, J., had held that on the wording of the bequest the rule in *In re Pettit* (1922, 2 Ch. 765) did not apply, and that the annuitants were not liable to pay over to the trustees any tax repaid in respect of their respective annuities. A unanimous Court reversed this decision. The judgments comprise a full examination of the present position of this tiresome problem.

Municipal Treasurers' Conference

An interesting conference of the Institute of Municipal Treasurers and Accountants was held at Torquay from June 17 to 20, 1947. The conference was welcomed by the Mayor of Torquay, and the President, Mr. John Ainsworth, M.B.E., F.S.A.A., presided at the meetings and functions with much ability and charm. His Presidential Address is printed in shortened form on page 151.

The Right Honourable Aneurin Bevan, M.P., Minister of Health, made a journey to Torquay to address the Conference. The Minister referred in general terms to the revision of the formula for block grants, which was under consideration, and announced that, very sadly and reluctantly, the Government had come to the conclusion that it was necessary for the central Government to accept responsibility for valuation. The Government's intention was to equalise as far as possible the local cost of the new social services.

Sir Frederick Alban, C.B.E., F.S.A.A., the President of the Society of Incorporated Accountants, was responsible for a paper on "The Financial Relations between the Central Government and Local Authorities," which, with other papers, was printed in advance. Sir Frederick introduced his paper in a lucid speech which was given in the light of the announcement made by the Minister of Health, as the announcement was fundamental in the treatment of block grants. The paper, which was followed by a lively discussion, comprised useful current statistics bearing on the problem, and indicated considerable research.

The question of boundaries of areas of local government is now under the consideration of the Local Government Boundary Commission. The chairman is Sir Malcolm Trustram Eve, Bart., K.C., who was present and who delivered an address. The Commission had not come to any definite conclusions, and Sir Malcolm indicated certain criteria which he commended to the earnest consideration of the conference.

"The Financial Relationship between County Councils and County District Councils" was dealt with in papers by Mr. Alan Beal, County Treasurer of Lancashire, and Mr. Ernest Sinnott, A.S.A.A., Borough Treasurer, Worthing.

At the dinner the toast of the Guests was proposed by Mr. James Lythgoe, C.B.E., Vice-President, and responses were given by Sir Malcolm Trustram Eve, Bart., by Mr. Gilbert Shepherd, President of the Institute of Chartered Accountants, and by Mr. Treasurer Morrison (Aberdeen).

At the conclusion of the conference, Mr. Ainsworth, whose period of office as President had expired, invested the new President, Mr. James Lythgoe, C.B.E., City Treasurer of Manchester, with the badge of office. The new Vice-President is Mr. Henry Brown, F.S.A.A., City Treasurer of Rochester.

The conference expressed its appreciation to the retiring President for his valuable services and his conduct in the chair, and to the Secretary, Mr. Ernest Long, F.S.A.A., for the excellent arrangements made for the meetings and functions.

It was clear from the proceedings that great changes are pending in local government, arising from the transfer of services and the setting up of new social services, from fundamental modifications in financial relations, and from alterations of boundaries. It may be wondered if the public fully realise the extent of the changes pending, which involve the creation of *ad hoc* regional bodies for specific services, and overall a greater degree of control by the central Government.

FINANCE**The Month in the City****Featureless Markets**

After the protracted revival in industrial share values which had been in progress for some three months, there has followed in the past four weeks a period of virtual stability in most sections of the market. There have been fluctuations and even considerable movements in individual stocks, but no really discernible trend over the past month. It depends purely on the choice of the day taken whether industrial equities show a rise or a fall of approximately 1 per cent. Most of the larger of the more speculative sections show similar experiences, while fixed-interest stocks, despite some fairly sharp movements, come out more or less level on the period. This stability in prices has been preserved in face of a falling off in the number of dividend increases, of very indifferent news as to the progress of industry in general, and exports in particular, towards the official targets and of a revival in the flow of new issues. Most surprising of all, it has persisted in spite of the fact that it is extremely difficult to find in any quarter a clear view as to the future trend of share values. In these circumstances prices usually fall. The fact that they have not is one of the two really interesting points about markets. The other is that there is not the slightest sign of any decline in the popularity of new issues of industrial shares. Issue after issue makes its appearance on terms which do not appear over-generous. They are not only heavily "staggered," but they immediately go to fairly substantial premiums which are maintained, at least for a period of weeks. It looks as though the investing public does not believe that British industry is on the verge of a fall in earnings of substantial importance.

Compensation Money

None the less, it is scarcely possible that the experience of rising dividends, which has been a potent factor over recent months, can persist and it will be surprising if there are not falls in earnings, if not in distributions. But against this there are certain technical factors affecting the market which have recently received great publicity. Of these the most important are the probability of a substantial cash distribution early in the winter to the holders of Argentine railway debentures and, much more important, the issue of a vast amount of railway compensation stock early in the New Year. Both these nationalisation measures remove a large amount of semi-speculative securities from the market, and there is a general calculation that the holders will, in most cases, want on some part of their holdings the sort of yield which can only be obtained on equities. As the total involved is counted in hundreds of millions, to be re-enforced later by other nationalisation measures, the effect on the market may be very substantial. As to actual results of industry, much publicity is given to the fact that improvement is being halted, but there is no immediate prospect of results being greatly inferior to the average performance of 1946. It is by reference to what ought to have been done this year that pessimism is justified, rather than by comparison with what was accomplished during the whole of 1946. It will only be if we fail to fill the dollar gap a year from now, or if there is a real slump, of "American" proportions, in the U.S.A., that a heavy fall in British industrial earnings below the 1946 level is to be expected in the near future. In the rather longer run there is grave danger to our export drive in revived U.S. competition. There are all too good grounds for supposing that we shall fail to fill the dollar gap—although America may fill it for us.

There is also much that is disturbing from a purely domestic point of view, but the average investor has scarcely begun to realise the seriousness of the situation.

The Finance Bill

As concerns the two issues which are of primary interest to the City, the 7½ per cent. tax on distributed profits and the 10 per cent. duty on bonus issues and on the bonus element in the offer of stock as rights, the debate on the Committee stage of the Finance Bill has not produced any major concession from the Government. There is nothing surprising in this, but there are several things about the debate itself which certainly call for comment. In imposing a special tax on ordinary shareholders the Chancellor of the Exchequer was abandoning a doctrine which he has himself held in the past, and he defended his project with the fervour which is usual in a new convert. The tax is certainly almost entirely bad and ought to be withdrawn. But from Mr. Dalton's standpoint it does at least square with his desire to see a larger proportion of profits ploughed back into industry. Certainly in the sense that increased real saving is desirable there is much to be said for increasing the cash available to industry as a whole for the purchase of capital equipment. The trouble is that the equipment is not available to be purchased, while it is doubtful whether there is any great virtue in concentrating ever larger amounts of cash in the hands of those particular people who happen at present to be in control of industry. It might be better to pass a higher proportion to would-be new entrants. However, one can understand this tax, while disagreeing with it.

But when one comes to the duty on bonus shares, the whole matter remains incomprehensible. It has always seemed that the authorities were astray in their reasoning on this matter and Mr. Dalton's statements—admittedly uttered in the early hours of the morning, but made then on his own insistence—seem to confirm this view. At one time he went so far as to say in substance that what he wanted to see was a firm ploughing back earnings and investing them in new plant and not adding them to reserves and using the reserves to make bonus issues. Are not these two sets of operations, placed by the Chancellor in antithesis to one another, merely complementary parts, or different aspects, of a single operation, with the added advantage that the bonus issue, if properly made, results in a clearer statement of the capital actually sunk in the business? A second point is that far too little attention was paid by both sides to the fact that the taxation of the bonus element in the issue of rights is a further attack on the equity holder—that is, on the person who alone of all investors is prepared to provide cash for those who are willing to back the new ideas without which this country must sink into the position of a mere imitator of more progressive peoples.

Public Accountants Bill

The draft Bill as finally settled by the Co-ordinating Committee has now been formally submitted to the Board of Trade with a request for early consideration of the matter by Parliament. Copies of the Bill may be obtained by members on application to the Secretary of the Society of Incorporated Accountants, at Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

Points from Published Accounts

Dunlop Rubber

The new attitude towards group accounts is exemplified in the chairman's statement accompanying the accounts of Dunlop Rubber. This discusses first the profit and loss account of the parent company itself, and then the accounts of the group as a whole. But Sir George Beharrell intimates that in future the consolidated position will be given precedence, remarking that "the continued growth and importance of our subsidiary companies, particularly those overseas, is such that the directors consider the annual financial review should be directed primarily to the consolidated statements," and that "the legislation now under consideration emphasises the importance of the activities of subsidiary companies." This time the consolidated profit and loss account records a growth in trading profits, investment income and miscellaneous receipts (not, unfortunately, stated separately) from £6,535,790 to £8,263,279, while there is also a credit of £149,057, against £455,454 in 1945, representing sundry trading provisions made in previous years but no longer required. The exceptional nature of part of the net profit of £5,993,168, against £5,224,648, is thus clearly indicated. To this sum is added a sum of £1,000,000 receivable on account of claims for refund of E.P.T. in respect of companies previously in enemy or enemy-occupied countries. No indication is given as to whether this is a gross or net sum; but, on the assumption that it is the former, £450,000 of the tax provision of £3,826,438 is presumably attributable to it. The position might well have been made plain, for there is an obvious temptation for the ordinary investor to exclude the E.P.T. refund in his calculation of net profits as determined after tax, without allowing for the swollen amount of the tax charge. There might have been further clarification of the tax situation, too, on other scores, for United Kingdom E.P.T. is stated at £1,279,141, less adjustments for previous years, and United Kingdom income tax of £948,499 is shown on the same basis. The amounts of these adjustments may well have been important, and their disclosure would have enabled closer assessment of the 1946 profit experience to be made. A commendable feature of the accounts is a statement of comparative results summarising the chief profit and loss and balance sheet items for 1938 and each of the years from 1940 onwards.

Clan Line Steamers

On representations that full disclosure of reserves would penalise British shipping companies *vis-à-vis* their foreign competitors, the Government has agreed to amend the Companies Bill. The directors of Clan Line Steamers have considered whether to continue submitting a consolidated balance sheet. Their decision is that, subject to the matters on which controversy arises, group accounts should be submitted, though these admittedly do not cover all the provisions of the Bill. Apart from vessels under construction, brought in at cost of £478,631, the group's fleet is shown at £6,534,284, representing "vessels at cost, less depreciation," without the cost value or the accumulated depreciation being shown. In the parent's own balance sheet, the payments made on account of vessels under construction are not disclosed separately. In this statement the current assets are shown at £4,433,368, whereas the corresponding total for the whole group is £6,145,575. That comparison itself points to the utility of consolidated statements, and so does the fact that the reserves and undistributed profits of the group stand, at

£7,823,451, substantially in excess of those of £6,245,564 shown for the parent. Included is an investment reserve of £219,139, representing £249,139 excess of proceeds of sale over book values transferred, less a proposed special distribution of 5 per cent. on the ordinary stock, which in addition receives a total dividend of 20 per cent. from profit and loss. Special interest rests in a schedule of the fleet, detailing the position at December 31, 1946, with the tonnage of each vessel indicated, recording the additions and sales made during the year and the new building commitments, and giving a summary of the ships available at the date of the latest report. If this example were widely emulated, shipping accounts would become much more intelligible.

Daily Mirror Newspapers

During the year to February 28 last the Daily Mirror Newspapers disposed of its shares in Associated Newspapers and the Daily Mail and General Trust, the sum received enabling it, *inter alia*, to clear the balance of the bank loan arranged when it planned to pay off the outstanding 5 per cent. debenture stock, which in the last balance sheet stood at £1,788,664. The net surplus which arose from investments sold during the year is not stated; but it has been deducted from the value of the unquoted shares in subsidiaries. These now stand at £2,001,972, as compared with £2,897,943 a year earlier. In the circumstances this figure may conservatively be held to be a moderate valuation, but, even so, it accounts for a very large proportion of the assets total of £5,626,064. That being so, it is a matter for regret that the directors do not choose to present consolidated accounts. So far from that, they do not even differentiate between receipts from interest and dividends and trading profit. These two distinct items of revenue are grouped together and stated after providing an undisclosed sum for E.P.T. It is useful to know that the quoted investments, entered at £618,697, have a market value of £2,552,561, but it would still be helpful to know what value in tangible assets supports the book valuation of £2,001,972 for shares in subsidiaries, and what contribution these holdings make to group revenue. The parent company itself shows goodwill and copyrights, standing at £516,290 at the company's formation in 1920, written down to the nominal figure of £1. Its tangible fixed assets are also brought in at cost, £2,094,738, with accumulated depreciation of £869,000 deducted to leave a net entry of £1,225,738.

Amalgamated Metal Corporation

With its 1946-47 statement, the Amalgamated Metal Corporation has abandoned its practice of presenting a combined balance sheet of the two subsidiary companies, British Metal Corporation and Henry Gardner and Co., and a consolidated balance sheet of their subsidiary and allied companies. Instead, there is a consolidated balance sheet of the whole group—that is, Amalgamated Metal and its subsidiaries and sub-subsidiaries—which means that the position is made much plainer. Another improvement is a consolidated profit and loss account, but this is not drawn up on the most informative basis. Thus, the trading profit of £187,895 includes a net surplus arising on realisation of investments; and, although the chairman stresses that this part of profits may be of a non-recurring nature, its amount is not revealed. Against total income of £306,306, the provision for income tax is £136,844, and this is described as being "based as regards trading profits in the case of one subsidiary on the profit of the previous

year, and in the others on the profits for the year, less adjustments £114,000 in respect of earlier years." As could have been deduced from the earlier accounts, but only with a good deal of labour on the part of the scrutineer, intangible assets bulk largely in the group balance sheet. Apart from new processes and patents

of £52,245, the fixed assets include goodwill of £2,298,528 mainly represented by net premiums paid on acquisition of shares in subsidiary undertakings. Against this total of £2,350,773 there may be set reserves of £1,657,714 and investment appreciation of £181,914, or £1,839,628 all told.

LAW

Legal Notes

COMPANY LAW

Surplus assets—Right of Crown—Companies Act, 1929, Section 247.

Section 247 of the Companies Act, 1929, provides that, subject to preferential payments, a company's property shall, on its winding up, be applied in satisfaction of its liabilities *pari passu*, and subject to such application shall, unless the articles otherwise provide, be distributed among the members according to their rights and interests in the company. In *Re Merchant Navy Supply Association, Ltd.* (1947, 1 All E.R. 894) by its memorandum a private company provided that its income and property should be applied solely towards the promotion of its objects and that no portion thereof should be transferred, directly or indirectly, by way of dividend, bonus or otherwise, to members of the company, but there was no provision, in the memorandum or the articles, as to how the surplus assets should be applied on a winding-up. Vaisey, J., held (1) the provision in the memorandum related to the profits of the company while it was carrying on its business as a going concern; (2) if the provision was intended to apply to a winding-up, it was inoperative, because it attempted to exclude the express provisions of Section 247 of the Companies Act, 1929, without substituting any alternative provision; (3) the Crown was not entitled to the surplus assets as being *bona vacantia* by reason of the provision in the memorandum, because Section 247 must prevail, and the surplus assets must be distributed among the members according to their rights and interests.

EXECUTORSHIP LAW AND TRUSTS

Fraudulent exercise of power of appointment—Agreement by appointee to benefit appointor's children held void.

In *Re Crawshaw* (1947, 1 All E.R. 643) by his will a testator settled a legacy on trust for his daughter R., for life, with remainder to her issue, but should there be no child of R. who should attain 21, then on trust for such issue of her brothers and sister as she should by will appoint; in default of appointment, the legacy was to be divided equally between the children of her brothers and sister living at her death. By a codicil the testator excluded the issue of his daughter R. by W. (whom she was about to marry) from taking any benefit under his will. The testator died in 1879 and R. died in 1943, having been married once only, namely to W., by whom she had two children who had attained 21. At R.'s death, four of her nephews and nieces were alive, including J.C., a son of R.'s brother, W.T.C. By his will W.T.C. (who died in 1918) gave certain property to J.C. on condition that he assigned for the benefit of R.'s issue any interest to which he might become entitled in the settled legacy under the testator's will or the exercise of the power of appointment. The direction to assign was complied with by J.C., and R. by her will appointed the whole legacy to J.C., with the object of benefiting her own children. Vaisey, J., held that the nephews and nieces who survived R. took vested interests in the settled legacy; R.'s power to divest such interest by appointment was conferred on her by the testator in order that she might, acting in a fiduciary capacity,

select one or more of them as recipients of his bounty to the exclusion or partial exclusion of the others on due consideration of their merits and needs, and, since R. had exercised the power, not for this purpose, but to benefit her own children, the appointment in favour of J.C. failed, as being a fraud on the power.

Will—Condition precedent—Whether time specified is essential.

In *Re Goldsmith's Will Trusts* (1947, 1 All E.R. 451) Wynn-Parry, J., had to construe a will in the following terms: The testator gave his wife a legacy of £1,000 and a life interest in the income of all his real estate, together with the residue of his personal estate. After her death, he left certain freehold property to B., subject to the payment by B. of £800 within six months of the testator's death to form part of the residuary estate. There was no express gift over of the property in question, but there was a gift over of the residuary estate after the widow's death. The testator died in November, 1922, and the widow died in December, 1945. In March, 1946, B. offered to pay the £800. The question for decision was whether the gift took effect although the condition as to payment had not been performed within the time specified. Wynn-Parry, J., held that, in the events which had happened, the conditional devise had failed and the property had fallen into the testator's residuary estate. The reason was that the time specified for the payment was of the essence of the matter, because the fulfilment of the condition would have provided a capital sum which, if invested, would produce income for the widow during her life, and therefore a performance after her death could not put the parties in the same position as if the will had been strictly complied with.

INSOLVENCY

Bankruptcy Act, 1914, Sections 26 and 108—Suspension of discharge.

By Section 108 of the Bankruptcy Act, 1914, a registrar who has refused the discharge of a bankrupt by the exercise of his powers under Section 26 has ample jurisdiction, on a second application, to review, rescind or vary his previous order, and to order an immediate discharge if he thinks fit. In *Re Smith* (1947, 1 All E.R. 769), the bankrupt's adjudication was in December, 1938. In July, 1939, his application for discharge was refused by the registrar. In January, 1947, on a further application, the registrar ordered that the discharge be suspended for three years from October, 1946. His assets were less than 10s. in the pound on his unsecured liabilities; he had contracted debts provable in the bankruptcy without any reasonable ground of expectation of being able to pay them; his bankruptcy had in part been due to rash speculation and unjustifiable extravagance; and on a previous occasion he had been adjudged bankrupt. The Court of Appeal held that the registrar's decision violated no principle, there was no misdirection of law, and the suspension ordered was not so excessive or severe as to justify the Court in interfering with the registrar's exercise of his discretion. The Master of the Rolls

adumbrated that the Court of Appeal will always be alive to the fact that bankruptcy registrars have great experience in such matters of cases when circumstances differ widely. Their discretion will not be interfered with except on good grounds. When the suspension of a bankrupt's discharge is being considered, due regard must be given to the protection of the public, but no rule can be laid down as to the length of suspension applicable in every class of case. Regard must be had to the whole circumstances of the bankruptcy in order to see whether the period of suspension is excessive. The Court will interfere only where it concludes that the discretion has been unconscionably exercised over the length of suspension, but no Court has jurisdiction to bind the discretion of its successors in bankruptcy jurisdiction.

Winding-up of Building Societies—Notice of public advertisement.

In *Payne v. Cos* (1947, 1 All E.R. 841) Vaisey, J., held that the provisions of Section 115 (2) of the Companies Act, 1929, regarding dissolution proceedings did not apply to a building society in the following circumstances: The trustees of an instrument of dissolution of a building society wished to call a general meeting of the society to obtain the necessary authority for a winding-up petition to be presented to the Court under the Building Societies Act, 1874, Section 32 (4). They were unable to do so because, under the rules, notice of all meetings had to be sent to all the members at least seven days before the meetings, and as the society's register of members had been destroyed by enemy action, the rule could not be complied with. The Court also held that notice, as provided by the rules, must be sent to all members whose names and addresses were known, but the matter could be brought to the notice of members whose names and addresses were not known by means of public advertisement in appropriate newspapers indicating the purposes of the meeting, and calling on the members to attend the meeting after a proper interval.

MISCELLANEOUS

Guarantee—Mortgage—Surety—Building Society.

In *Eastern Counties Building Society v. Russell* (1947, 1 All E.R. 500) the mortgagor was entitled under a building society mortgage deed to an advance of £775 by purchasing 7½ £100 shares of the society at an aggregate bonus of £38 15s. (£5 a share). The amount of bonus was also lent to the mortgagor. By a proviso to the society's covenant, the liability of the surety was to cease if "the amount owing in respect of the advance" was reduced below £700. The deed contained no agreement for compound interest. In an action by the society against the surety for payment of the amount due under the mortgage deed and unpaid by the mortgagor, the amount claimed included solicitor's charges and compound interest, but less than £700 of the original £775 was still owing. The surety contended (1) that the society's accounts had been kept on a wrong footing and did not correctly show the true balance for which the surety could be held liable, as the deed contained no agreement for compound interest; (2) that his liability had already ceased before the action was brought, because "the amount owing in respect of the advance" in the proviso discharging him from liability referred solely to the £775 advanced to the mortgagor, and did not include compound interest and other charges. Hilbery, J., held: (1) the society was not entitled to charge compound interest since there was no express agreement to that effect in the mortgage deed; an agreement could not be implied, as there was no evidence that the mortgagor or surety knew that it was a custom

of building societies to keep their accounts in that way. The society's account had, therefore, been kept on a wrong footing, and did not correctly show the true balance for which the surety could be made liable; (2) the words "the amount owing in respect of the advance" in the proviso to the society's covenant did not include the entire amount due under the deed, but only the amount still due in respect of the £775; therefore, the surety was discharged from liability.

Contract—Loan to company—Consideration.

In *Ledingham v. Berimejo Estancia Co., Ltd.* (1947, 1 All E.R. 749), A., the company chairman, and his wife (who was not a director) lent money to the company when it was in difficulties at various times from 1924. In 1930 they agreed to waive the interest due since July, 1927, "until such time as the company is in a position to pay the interest." The undertaking was recorded in the company's minutes, which stated that the offer was accepted and that the secretary was instructed to cancel the amounts credited to their accounts as interest since July, 1927. A. died in 1932 and Mrs. A. died in 1941. Members of the board become entitled to a share of the accrued interest as trustees under A.'s will. The company ultimately ceased to carry on business; liability for the capital was admitted and the trustees claimed payment of the interest. Atkinson, J., held: (1) the agreement was that payment of interest be postponed until the company could pay it out of income, whilst it carried on; when it ceased business, the agreement terminated and the whole interest became due; (2) the agreement was a binding contract as the offer contemplated legal relations; the consideration was the company continuing to carry on.

Books Received

Paget's Law of Banking. Fifth edition by Maurice Megrah, Barrister-at-Law. (Butterworth & Co. (Publishers), Ltd., London. Price 25s. net.)

Credit and Collection Principles and Practice. By Albert F. Chapin, Professor of Finance, New York University. Fifth edition. (McGraw-Hill Book Co., New York and London. Price 25s. net.)

Office Control and Management, incorporating The Manual of Office Mechanisation and Equipment. Monthly, commencing May, 1947. (Gee & Co. (Publishers), Ltd., London. Price 1s. 6d., annual subscription 19s. net.)

Municipal Bookkeeping and Accounts. Edited by Henry Brown, F.S.A.A., F.I.M.T.A., F.S.S. Assistant editor, James Deakin, F.I.M.T.A., A.S.A.A. Second edition. (Butterworth & Co. (Publishers), Ltd., and Shaw & Sons, Ltd., London. Price 35s. net.)

The Vital Flame. By Compton Mackenzie. (British Gas Council, London. Price 12s. 6d. net.)

Some Legal Aspects of Charities, with particular reference to the Income Tax Acts. Issued by the Technical Research Committee of the Association of Certified and Corporate Accountants. (Fiscal Press, Ltd., London. Price 7s. 6d. net.)

Accounting Fundamentals. By George A. MacFarland and Robert D. Ayars. Second edition. (McGraw-Hill Book Co., New York and London. Price 22s. 6d. net.)

Death Duty Scales, including the 1947 Budget proposals. (Solicitors' Law Stationery Society, Ltd., London. Price 1s. 3d. net.)

Publications

Index and Digest of Tax Cases. Income-Tax Payers' Society.

This publication is available only to members of the Income-Tax Payers' Society. It contains summaries, which have already appeared in *The Income-Tax Payer*, of more than 580 cases relating to income tax, sur-tax, excess profits tax, and national defence contribution, decided during the years 1933 to 1946. These summaries are concise but in quite sufficient detail for the purpose of aiding reference.

The index of cases in alphabetical order refers not only to the page of the book itself on which the summary appears but also to the Official Reports of Tax Cases, the All England Law Reports, or The Times Law Reports. There is also a further index in which the subjects of the cases are detailed in alphabetical order; the names of the cases relating to each subject are set out and a reference given to the summaries.

In a very convenient form, therefore, the accountant may have available a rapid guide to recent case law and references to the full reports.

J. A. J.

Administrative Control. By Kenneth J. Wharton, A.L.A.A. (Gee & Co. (Publishers), Ltd., London. Price 15s. net.)

This is a difficult book to read because of the author's peculiar style, but in many respects the content is elementary. The reader is inclined to gain the impression that the author is giving elaborate explanations of matters of common knowledge. However, it is not altogether a beginner's book, and there is an extremely useful chapter on the recording of clerical procedures, which can be studied with advantage by office managers of considerable experience.

The example given in this chapter of the method of laying out clerical procedures, although simple, is probably more effective than the more complicated methods of charting and recording routines.

One cannot avoid the impression that this volume is a first attempt and has cost the author a prodigious effort. If this is so, it is to be hoped that he will, in due course, produce another volume with less padding and more detail. However, to do the author justice, he has attempted to deal with a very broad subject in a small volume, and he certainly draws attention to the complex and extensive nature of efficient office management. This subject, as the author points out, has been neglected in the past, and the tendency has been to consider it as an offshoot of general management. A great deal of specialised knowledge is required in organising and controlling an office properly, and any contribution towards an understanding of this viewpoint is undoubtedly of great value.

J. J. E.

Income Tax Case Law. By A. Farnsworth, Ph.D., LL.M. (Stevens & Sons, Ltd., London. Price 17s. 6d. net.)

Dr. Farnsworth's previous book, *The Residence and Domicil of Corporations* (Butterworth, 1939), has come to be regarded as an authoritative work of reference, not only in this country but also in the United States. Such a *succès d'estime* is a remarkable achievement for an author's first work, and it also sets an extremely high standard by which his subsequent writings will be judged.

The present book covers a much wider field and, in

great part, is a compilation of articles which have appeared previously in certain learned journals, to whom the author makes his acknowledgments. That Dr. Farnsworth has not fallen short of his own high standard is best evidenced by the fact that so eminent a lawyer as the Right Honourable Viscount Simon has written a foreword to the book, in which he pays tribute to the author's exact knowledge of income tax law and proceeds to commend the book to all those concerned with income tax matters, aptly describing it as "illuminating."

The general scheme of the work is that the decided cases relevant to each selected subject-matter are reviewed for the purpose of deducing the underlying principle which, in the course of the years, has been developed as the result of judicial interpretation.

Accountants, staid by the repeated perusal of the formidable array of reported decisions, will derive much guidance and enlightenment from the first two chapters. These comprise many of the important issues which constantly present themselves in the course of practice. On such matters as what constitutes a trade, or the distinction between capital and revenue expenditure, they will find the relevant cases conveniently grouped and clearly analysed, the currently accepted principle of law then being deduced in a manner which will certainly facilitate a conclusion on the problems posed by the facts and circumstances of particular cases.

Some knowledge of taxation is incumbent upon all members of the accountancy profession. The better informed will find that a perusal of Dr. Farnsworth's latest work will serve to refresh and clarify that knowledge. The labours of the student will be eased by comprehension of the basic principles which the book presents in logical and interesting manner.

A. S. A.

Commerce and the Commercial Office. By W. Campbell. (Sir Isaac Pitman & Sons, Ltd., London. Price 15s. net.)

This apparently formidable volume, covering as it does some 650 pages of printed matter, proves on closer acquaintance to be far more interesting than might be expected at first sight. In fact, the author's simple and direct style and the logical arrangement of the contents make it an outstanding work of its kind.

Mr. Campbell has taken a broad and intelligent view of his subject, as can be illustrated by the following quotation from one of the opening chapters:

"To supply our individual wants is the proper purpose of our industrial system. Instead of each member of the community striving single-handed and imperfectly to make for himself all the things he needs, he works as a unit in a vast and complex aggregation of effort, which is organised to produce more economically and more efficiently, in quantity sufficient for the needs of all, and to distribute the product to all according to their wants."

To the student this book should prove of value by reason of the test questions appearing at the end of each chapter. These are largely specimen questions from various examination papers, and the student who works through conscientiously should be highly placed in any of the usual examinations on the subject.

There is obviously a background of experience as well as a knowledge of theory in the preparation of this work, and considering the very wide field that it covers, it should prove extremely useful as a book of reference.

J. J. E.

Society of Incorporated Accountants

London Members' Luncheon

A luncheon was held by the Incorporated Accountants' London and District Society at the Savoy Hotel on June 12. The Chairman of the District Society, Mr. C. V. Best, F.S.A.A., presided, and the guests included the Right Hon. Ralph Assheton, M.P.; Sir Frederick Alban, C.B.E., F.S.A.A., President of the Society of Incorporated Accountants; Sir Edward Wilshaw, K.C.M.G., Cable & Wireless, Ltd.; Sir Roland Burrows, K.C.; Sir Alexander Carr-Saunders, Director, London School of Economics; Mr. John Cliff, London Passenger Transport Board; Mr. H. R. Hungerford, U.S. Foreign Service; Mr. J. B. Braithwaite, Joint Chairman of the New Issues Committee of the Share and Loan Department, Stock Exchange; Captain E. Marples, M.P., A.S.A.A.; Mr. R. T. Paget, M.P.; Mr. R. W. Bankes, C.B.E., Secretary, Institute of Chartered Accountants; Mr. J. Wood, C.A., Secretary, Association of Scottish Chartered Accountants in London; Mr. J. C. Latham, F.S.A.A., F.L.A.A., Secretary, Association of Certified and Corporate Accountants; Mr. C. J. Baker, LL.B., A.C.I.I., Secretary, Chartered Insurance Institute; Mr. H. Heathcote-Williams, Barrister-at-Law; Mr. Charles Norton, M.B.E., M.C.; Mr. M. A. Liddell; Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A.; Mr. Maurice Green; Mr. Francis Whitmore; Mr. F. W. Forge; Mr. C. Graham Hardy; and Mr. Derek du Pré.

The Chairman, Mr. C. V. Best, F.S.A.A., proposed the toast of "The Guests." He welcomed Sir Frederick Alban, who had travelled from Wales to attend his first District Society function since his election as President of the parent Society. They congratulated him on having attained this distinction.

They were honoured to have as principal guest Mr. Ralph Assheton, Member of Parliament for the City of London. As accountants they realised the tremendous responsibility of representing the City with its widespread financial interests. Mr. Assheton had gained valuable practical experience through his training in the law followed by his years of office as Parliamentary Secretary to the Ministry of Labour and Financial Secretary to the Treasury, as well as by his business activities.

Mr. Best referred to other guests who represented business and commerce, government, the law, education, other professional bodies, and the press.

He included in the toast those members who had recently returned after serving in H.M. Forces. Those who had remained at home desired to honour them and to make their return to professional life as easy as possible. The Council of the Society had held three courses at Oxford and Cambridge. The Committee of the District Society, in conjunction with the London Students' Society, supplemented these by courses of lectures and discussions covering the entire field of professional duties. They also held a course in public speaking. The numbers attending and the enthusiasm displayed convinced him that all these courses had been appreciated. He thanked the London Students' Committee for their collaboration.

In replying to the toast, Mr. RALPH ASSHETON, M.P., paid a tribute to the accountancy profession and its high standards. Having been in business all his life, he said, he was fully aware of the debt which the community in general owed to the profession. Its standards of competence and conduct were well illustrated by the motto of the Society of Incorporated Accountants, *Fides atque Integritas*.

Having in mind what Members of Parliament could do to help the profession of accountancy, he thought that by far the most helpful thing would be to try to secure that the laws they made were intelligible—intelligible not only to accountants, but also to their clients. Who was to blame for the increasing tendency of modern laws to be unintelligible? He considered that the Members of Parliament, the civil servants and the parliamentary draughtsmen ought all in their several ways to be exonerated and the blame placed squarely on the Ministers, who insisted in bringing in such complicated measures. The rush of new legislation to which we were daily subjected left no time for revising the old laws or even for improving them to meet modern needs.

The tax structure, for example, was now quite out of date. It needed simplification: and this simplification might have to be carried out even at the cost of sacrificing some of the finer adjustments. Business and commerce could only grow where there was some certainty, and certainty involved amongst other factors an understanding by the people of what the law was. How could they understand when there was such inadequate discussion as they had recently witnessed in the House of Commons? Not only was this true of legislative enactments, but Orders in Council were constantly being made by Ministers, often without any discussion in Parliament; and in these cases the public were frequently left entirely ignorant of what the law was.

Turning to broader aspects of human affairs, Mr. Assheton thought that there was a great need for a much higher moral sense and sense of duty and service. This moral sense still remained amongst professional men, fortunately; but many members of the community appeared merely to want the greatest pay they could obtain for the shortest hours of work. They put their own convenience before service to the community. Professional men, he was glad to say, had made a splendid stand against this, in spite of every discouragement. For them, harder work often meant more worry and frustration, without any reward other than the sense of service rendered. He thought he did not need to advise professional accountants to maintain their standards of integrity and service at whatever cost and however discouraging things might seem.

The world had come through terrible experiences in the last ten years. Now all might seem dark and hopeless, but we must never despair; for one day if the vital flame was kept alive during the dark period we should return to common sense and a higher standard of morality. During the Dark Ages, the seeds of knowledge and civilisation were preserved by the monks until the flowering of the Renaissance. So in this century it must be for the universities and the professions to keep alive the true values which we all longed to see established again. The Society, he thought, was one of those great professional organisations upon which this great trust rested. He was certain that the members would be worthy of that trust and would help to keep the light shining though all around was dark.

SIR FREDERICK ALBAN, C.B.E., F.S.A.A., President of the Society of Incorporated Accountants, said he was particularly happy to be present at this luncheon to Mr. Ralph Assheton, M.P., who spoke with the experience of a former Financial Secretary to the Treasury of piloting Bills through Parliament. He thanked Mr. Assheton for his references to the Society, and he could say that his views on the complexities of legislative measures were shared by the accountancy profession.

Sir Frederick added that he was very glad to be the guest of the London District Society so soon after his election as President. He congratulated Mr. Best on the charming way he had presided at the luncheon, and the Committee on the fine work they were doing for members in London.

Estate Duty Office

(1) Communications for the Controller, Estate Duty Office, Inland Revenue, should no longer be sent to Llandudno. Letters and accounts for assessment should be sent to the Controller, Estate Duty Office, Inland Revenue, Rayners Lane, Harrow, Middlesex, where the main office is now open.

(2) Inland Revenue Affidavits to lead to grants of representation, if accompanied by remittances, should be sent for assessment and stamping to the Accountant General (Cashier), Inland Revenue, New Wing, Somerset House, London, W.C.2, or they may be lodged there in Room 25. If, however, for any reason they are not accompanied by remittances, they should be forwarded to the Estate Duty Office (Affidavit Branch), Inland Revenue, New Wing, Somerset House, London, W.C.2, or they may be lodged there in Room 16.

(3) All remittances for death duties should be sent to the Accountant General (Cashier) as above, or may be paid personally in Room 25.

DISTRICT SOCIETIES

BIRMINGHAM

Annual Report

The District Society has now 404 members and 354 students. About 104 members and students are still serving in H.M. Forces.

Four students passed the Final Examination and ten the Intermediate during 1946. Mr. B. R. Pollott, M.A., Dudley, was awarded First Certificate of Merit and Prize in the Final Examination in May, 1946.

A number of additional works were added to the library. Copies of the catalogue are available.

Mr. A. P. Bardell, F.S.A.A., resigned the position of Hon. Librarian owing to pressure of other duties. The Committee express their thanks for his valuable work. Mr. E. Mozley, A.S.A.A., has been appointed Hon. Librarian.

The Consultative Committees have again proved helpful, and it is proposed that they be continued.

A golf match took place between members and H.M. Inspectors of Taxes.

An informal luncheon was held on May 3, 1946, when members and students were able to meet the President and Secretary of the parent society. An enjoyable dinner dance was held on February 22, 1947.

Thirteen lectures were held during the year. The Birmingham Chartered Accountants were invited to the first of these.

Mr. J. J. Potter, F.S.A.A., who had acted as Hon. Secretary for twelve years, resigned owing to pressure of business.

The Committee express the appreciation of all members of the District Society of Mr. Potter's loyal service and continuous efforts to promote the interests of the Society. A presentation fund has been inaugurated.

The Committee appointed Mr. C. Wheatley, A.S.A.A., of 12, Waterloo Street, Birmingham, as Hon. Secretary.

LIVERPOOL

On June 3, the Incorporated Accountants' District Society of Liverpool held its annual meeting.

Mr. J. C. Summerskill, F.S.A.A., was elected President, and Mr. L. Bailey, A.S.A.A., Vice-President. The remaining officers and retiring members of the Committee were re-elected.

The most pleasing feature of the meeting was a presentation to Mr. W. Bertram Nelson, F.S.A.A., on completion of two years as President, which followed a long period of excellent service as Honorary Secretary of the District Society.

The incoming President proposed a vote of thanks to Mr. Nelson for his past services, and Mr. James Boucher, a Past-President, spoke of the affection and esteem in which all members of the Society held Mr. Nelson and of the invaluable service which he had for many years rendered, not only to our own Society, but to the accountancy profession in general. Mr. Boucher then presented to Mr. Nelson the gift of the Liverpool members and students. This took the form of a de luxe edition of the *Encyclopaedia Britannica* in a specially fitted bookcase, together with a cheque.

Report

The membership at March 31, 1947, comprised 60 Fellows, 264 Associates, and 377 students—total 701. About 100 were serving in H.M. Forces, and to them the Society sends greetings.

Nine meetings were held during the year, including two arranged in conjunction with the Liverpool Society of Chartered Accountants. In addition the District Society held a refresher course for members returning from H.M. Forces, and a series of Saturday morning lectures for students. The Committee records its thanks to the lecturers and chairmen.

Other functions held were a dance, a students' dinner, and a bridge match between members of the District Society and members of the Liverpool Society of Chartered Accountants.

Further additions have been made to the library.

Three students have passed the Final Examination and five the Intermediate.

The Society has been represented on the Council of the Liverpool Chamber of Commerce by Mr. J. C. Summerskill

and the Honorary Secretary, and on the Birkenhead Chamber by Mr. L. Bailey.

The Committee thanks the members who have taken frequent duties at the Liverpool headquarters of the Citizens' Advice Bureau to advise applicants on taxation difficulties.

The scheme of university education for accountancy students has made excellent progress. The Society has been represented on the Liverpool Accountants' University Joint Committee by Mr. J. Boucher and Mr. J. C. Summerskill.

NORTH STAFFORDSHIRE

Annual Report

The membership totals 135, including 14 Fellows, 53 Associates, and 68 students.

Five meetings were held at which interesting lectures were given. Thanks are due to all the lecturers, and especially to Mr. W. A. Follows, A.S.A.A., for his excellent talk on Statistics. Invitations to attend the meetings were extended to other professional organisations.

The District Society was represented by the Honorary Secretary at meetings of the North Staffs. Chamber of Commerce.

A presentation was made to Mr. Donald H. Bates, J.P., F.S.A.A., in recognition of his long and devoted services to the District Society and to accountancy.

Two students were successful in the Final Examination.

YORKSHIRE

Annual Report

The membership totals 703, including 62 Fellows, 316 Associates, and 325 students. The Committee regrets the loss by death of five members.

Six students passed the Final and five the Intermediate Examination.

Five lecture meetings were held. One of these took the form of a discussion with members of the Chartered Institute of Secretaries, West Yorks. Branch. There was also a series of five Saturday morning classes.

The official dinner held on February 28, 1947, was the first social gathering since the war, and was most successful. The Lord Mayor of Leeds and the President and Secretary of the parent Society were among the guests. It is hoped to resume the annual dinner and the annual dance which were popular and happy social occasions before the war.

Fifty-two books have been purchased for the library during the year.

Annual Returns of Companies

It is usual for the Companies Registration Office to send cards acknowledging the annual returns of companies sent to them. These cards give the number of the companies concerned, but not their names, and in consequence it is necessary to refer to a list of registration numbers in order to ascertain where the acknowledgment card should be filed.

An Incorporated Accountant in practice informs us that he has had correspondence on this subject with the Registrar of Companies, who has replied that he is unable on grounds of economy to show the names of companies in full on acknowledgment cards issued by his Office. He adds, however, that if the initial letters of the words included in the names of the companies are given at the foot of the return, near to the name of the firm responsible for the registration, these letters will be quoted on the acknowledgment cards.

Mr. F. Sewell Bray, F.S.A.A., F.C.A., has accepted an invitation to deliver a lecture at the meeting of the British Association at Dundee on August 28. His subject will be "Social Accounting."

Professor W. T. Baxter, B.Com., C.A., formerly Professor of Accounting in the University of Cape Town, has been appointed Professor of Accounting in the University of London, and has taken up his appointment at the London School of Economics.

Mr. D. Cousins, B.Com., A.C.A., Reader in Accounting and Business Administration in the University of Birmingham, has been appointed to a Professorship.

PERSONAL NOTES

Messrs. Duck, Mansfield & Co., Incorporated Accountants, 66, Broad Street Avenue, London, E.C.2, have admitted into partnership Mr. Frederick Robert Hopkins, A.C.A., A.S.A.A. The name of the firm remains unaltered.

Messrs. W. T. Walton & Son, Incorporated Accountants, of West Hartlepool, Stockton-on-Tees, London and Liverpool, have taken into partnership Mr. William Stacy Dye, A.S.A.A., who has been on the London staff for the past eighteen years, and is now resident in Liverpool.

Messrs. J. Hulbert Grove & Co., Incorporated Accountants, of 133 & 135, Oxford Street, London, W.1, announce that

they have taken into partnership Mr. W. S. Howell, A.S.A.A., who has been a member of their staff for over twenty years.

Messrs. Macdonald, Moody & Kenworthy, Incorporated Accountants, have admitted into partnership Mr. D. M. Frame, A.S.A.A., A.C.A. The practice will be continued at County Buildings, Land of Green Ginger, Hull, under the same style as before.

REMOVAL

Mr. N. M. Clarke-Lens, Incorporated Accountant, has removed his offices to 3, Lovat Lane, Eastcheap, London, E.C.3.

INCORPORATED ACCOUNTANTS' BENEVOLENT FUND

The annual meeting of subscribers and donors to the Incorporated Accountants' Benevolent Fund was held on May 21 at the Hall of the Auctioneers' and Estate Agents' Institute of the United Kingdom (by kind permission of the Council of that Institute).

Sir Thomas Keens, D.L., President of the Fund, occupied the chair. In moving the adoption of the report and accounts for the year 1946, Sir Thomas said:

My first thought is of heartfelt gratitude to those who have generously contributed to the Fund over many years, to new subscribers whom the Trustees gladly welcome, and to our Committees and members in the British Dominions who have been most kind in remembering the Fund and making special efforts on its behalf. As President of the Fund, my expression of appreciation to you is on behalf of the trustees for your support, on behalf of those whom the Fund assists for your help, and on behalf of myself for your kindness and your confidence in the work of the Fund.

I should like to say a word as to the character of the help given by the trustees. That help is most frequently afforded to people who are themselves endeavouring to maintain their own positions. Perhaps a young widow with a small family needs help to supplement slender resources to bring up her family; or a widow may be able to earn her own living and partially to support her family. In these cases the trustees are able to afford assurance to the mother and assistance in the education of the children.

I am asked to acknowledge the valuable co-operation received from other organisations in individual cases—both as regards personal help and financial assistance.

The work of the Fund is not limited to the making of grants, but friendly counsel is often sought, and personal contacts by the trustees or by members of the Society, upon request, are an indication of the spirit in which the Fund is administered.

The accounts exhibit care in the administration of the

Fund. We are fortunate in that during the history of the Fund, a useful accumulated fund has been built up. But it is upon the regular contributions from year to year that the trustees mainly rely, and once again I ask for a renewal of your subscriptions and sympathetic interest.

I wish to express your thanks and mine to Mr. Percy Toothill, the Chairman, and to his co-trustees for all they have done—a work which I know affords them much joy.

The adoption of the report and accounts was seconded by Mr. Percy Toothill, Chairman of the trustees, and carried unanimously.

Mr. C. Yates Lloyd proposed and Mr. T. W. Dresser seconded the re-election of Sir Thomas Keens as President of the Fund. This was carried unanimously.

The trustees and the Vice-Presidents were re-elected.

The President of the Fund referred to the long services of Mr. W. Southwood Smith as Honorary Auditor, for which office, owing to his retirement from practice, he did not wish to be re-elected. The meeting desired to record high appreciation of Mr. Southwood Smith's service and resolved that he be elected a Vice-President of the Fund.

Mr. G. E. L. Whitmarsh moved and Mr. A. W. C. Lyddon seconded: "That in order to augment the income of the Benevolent Fund, a local Benevolent Fund Secretary be appointed for each District Society." The President welcomed the motion, and suggested that it be referred to the Conference of Branches and District Societies. The suggestion was approved.

Mr. Arthur H. Hughes was elected Honorary Auditor in succession to Mr. W. Southwood Smith, who, owing to retirement from practice, did not seek re-election. A vote of thanks and appreciation, proposed by Mr. A. L. Dickson, was unanimously accorded to Mr. W. Southwood Smith for his past services in this office.

Mr. A. D. Thomas proposed a vote of thanks to the President, Sir Thomas Keens, for presiding, and for his continued interest in the Fund. This was carried with acclamation.

Fifty-Fourth Annual Report of the Trustees

The Trustees gratefully acknowledge receipt of a legacy of £50 from a former subscriber and express their thanks to all contributors to the Fund.

The revenue of the Fund has been maintained and a total sum of £2,076 was distributed to 38 applicants during 1946. Many of the grants have again been made to assist the education of children of deceased members and these are likely to continue for some years until the children are trained for a career. Grateful letters from recipients have shown how much the grants have been appreciated in these difficult times.

The expenses of the Fund have again been confined to the necessary outlay for printing and postage.

Under the rules of the Fund, life subscriptions and donations have to be added to capital and the amount so treated this year at £1,041 is less than the amount received in the previous year.

Mr. W. Southwood Smith, the Honorary Auditor, having retired from practice does not wish to offer himself for re-election. The Trustees record their appreciation to Mr. Southwood Smith for his long and valuable services as

Honorary Auditor. Mr. Arthur H. Hughes, Incorporated Accountant, has been nominated for election as Hon. Auditor at the annual general meeting.

PARTICULARS OF GRANTS FOR 12 MONTHS, JANUARY 1 TO DECEMBER 31, 1946

	Number of Cases	Total Grants £	Amounts previously given in cases where grants were renewed £
(a) Education and Support of Children ...	15	883	3,384
(b) Members or Former Members Suffering from Infirmary or in Straited Circumstances ...	4	185	910
(c) Widows and Dependents of Deceased Members ...	19	1,008	4,732
	38	2,076	9,026

REVENUE ACCOUNT

For the year ended December 31, 1946

£		£		£		£
77	Printing, Postages and Cheques	40	1,307	Subscriptions	1,327	
2,107	Grants	2,076	422	Refund of Tax on Covenanted Subscriptions	371	
340	Balance, being surplus for year carried to		795	Dividends on Investments (including In-		
	Balance Sheet	422		come Tax recovered)	840	
<u>£2,524</u>		<u>£2,538</u>	<u>£2,524</u>		<u>£2,538</u>	

BALANCE SHEET

December 31, 1946.

£	LIABILITIES	£	£	£	ASSETS	£	£
18,249	CAPITAL ACCOUNT— Balance at December 31, 1945	19,825		445	CASH AT BANK and in hands of Overseas Agents	186	
	Add—				INVESTMENTS AT COST—		
304	Life Subscriptions	231			£10,000 3½ per cent. Conversion Stock	9,219	
832	Donations	810			£1,000 4 per cent. Funding Loan, 1960-90	804	
100	Legacy	50			£2,200 4 per cent. Consolidated Stock	2,085	
19,485		20,916			£2,000 3 per cent. Local Loans Stock	1,899	
	Add—				£2,000 3 per cent. Defence Bonds	2,000	
340	Balance from Revenue Account 1946	422			£400 2½ per cent. Defence Bonds	400	
19,825		21,338			£1,000 3 per cent. Savings Bonds 1960-70	1,000	
3,547	SIR JAMES MARTIN MEMORIAL FUND	3,547			£1,000 London County 3 per cent. Consolidated Stock, 1920	927	
500	EDITH SENDELL FUND	500			£500 London County 3 per cent. Consolidated Stock, 1956-61	490	
25	SUNDRY CREDITORS	25			£1,000 Metropolitan Water 'B' 3 per cent. Stock	910	
					£204 0s. 10d. Commonwealth of Australia 3½ per cent. Regis- tered Stock, 1950-52	185	
					£208 10s. 0d. New Zealand 4½ per cent. Stock, 1948-58	201	
					£300 London and North Eastern Railway 4 per cent. 1st Pref- erence Stock	247	
					£75 Society of Incorporated Ac- countants 5 per cent. Deben- tures (Gifts)	75	
				19,041		20,442	
					SIR JAMES MARTIN MEMORIAL FUND—		
					£1,000 3 per cent. Local Loans...	966	
					£1,000 2½ per cent. Guaranteed Stock	862	
					£1,500 2½ per cent. Consolidated Stock	1,266	
					£545 16s. 4d. 2½ per cent. An- nuities	453	
				3,547		3,547	
					EDITH SENDELL FUND—		
					£432 0s. 9d. 4 per cent. Con- solidated Stock	500	
					(Market Value of all Securities at December 31, 1946, £28,577)		
					COMMISSIONERS OF INLAND REVENUE for Refund of Income Tax	735	
<u>£23,897</u>		<u>£25,410</u>	<u>£23,897</u>			<u>£25,410</u>	

PERCY TOOTHILL,
Chairman of Trustees.

I have examined the above Accounts together with the Books and Vouchers and find the same to be correctly stated.
I have also verified the Securities of the Fund.

61, WEST SMITHFIELD, LONDON, E.C.
April 24, 1947.

W. SOUTHWOOD SMITH,
Incorporated Accountant,
Hon. Auditor.